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# ECONÓMICS FOR BUSINESS MEN

BY

W. J. WESTON, M.A., B.Sc.



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## PREFACE

THE writer is content to bear all responsibility ; but the University Extension students, from whom he has learnt much and with whom he has passed many delightful hours, are partners with him in this book.

The title is not restrictive ; for, whether we wish to be or not, we are all business men, all traders. We live because we are able to exchange our services for others' services, embodied maybe in food and clothing or what you will. That trade makes our modern society into a mutual co-operation is the leading idea. The book is written primarily for those seeking to pass the earlier examinations in this subject. But one hopes it will help all who, wishing to see how economics concerns life, shrink from that region of airy abstractions that is the native haunt of the high-and-dry economist. The theory is here right enough ; it is not divorced from practice, from ordinary business life. There is the necessary apology for yet another book on elementary economics.

“ Does not the very Ditcher and Delver, with his spade, extinguish many a thistle and puddle ; and so leave a little Order, where he found the opposite ? ”—CARLYLE.



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# ECONOMICS FOR BUSINESS MEN

## CHAPTER I

### SOME GENERAL REMARKS

*“Wondrous truly are the bonds that unite us one and all, whether by the soft binding of Love, or the iron chaining of Necessity, as we like to choose it.”*—CARLYLE.

#### “Earning a Living.”

ECONOMICS deals with the efforts of man in society, in communion, that is, with his fellows, to make a living. In its modesty it confines itself to what are commonplaces, though not because of that negligible. On the contrary; for life is made up of commonplaces. Economics does not lose itself in the mists of thin-spun reasonings about ethics or aesthetics or metaphysics, upon which men will squabble till the trump of doom.

Material it is, perhaps, concerning itself with things to eat and things to wear, with houses and lands, with rents and profits and wages. It bids its students to “leave the Wise to wrangle, and with me The Quarrel of the Universe let be,” and to consider simpler wants than the hunger of the mind, wants satisfied more easily than by solving the riddle of the universe. The economist is less exacting than other scientists; his lowlier ambitions are in tune with the verses—

Here with a Loaf of Bread beneath the Bough,  
A Flask of Wine, a Book of Verse—and Thou  
Beside me singing in the Wilderness—  
And Wilderness is Paradise enow.

If the material wants of the people can be fully met, that satisfies the economist as fully as it did the Persian poet. The supplying of the non-material wants can be tried with some hope of success only when the material wants are first met : we cannot educate a famished child nor lead to higher things a people grovelling in indigent poverty.

Economics studies but one side of man's activities, that side concerned in getting an income and in spending it. Or, to put the matter in another way, it studies the problems connected with the production of wealth, with its sharing or distribution among those who have helped to produce, and with its consumption. "Wants—efforts—satisfaction ; here is the summary of Political Economy."

"The rugged all-nourishing earth feeds the sparrow on the house-top, much more her darling, man"—but not without his work : a man has constant or recurring wants, these wants incite him to effort, the effort wisely directed results in satisfaction. "How do men live ?" is the master question. The meanest creature has wants ; the modern Englishman has wants increasing with every step taken by ingenious inventors. He does not live by bread alone, but seeks a wireless set and a motor-car ; he no longer confines himself to the place where he was born, he feels the want of a yearly holiday in congenial company elsewhere. How does he satisfy these wants ? Economics tries to answer the question.

The economist has, a little unfairly perhaps, been reviled for his confining himself to the study of the wants of man and the method of supplying them. That, wishing to obtain clear ideas upon a limited range of subjects, he does so restrict himself, is no reason for believing that he condemns morality and all the rest. His is not the exclamation : "Not on Morality, but on

Cookery, let us build our stronghold : there, brandishing our frying-pan as censer, let us offer sweet incense to the Devil, and live at ease on the fat things *he* has provided for his elect ! ”

After all, the questions are important to every one of us, “ How do men live ? ” “ How do they ‘ earn their living,’ obtain the goods not forthcoming but by effort and sacrifice ? ” “ Particularly, now that the whole community co-operates in earning that living, how are the goods divided that are the joint product of that co-operation ? ” Material well-being it may be that we are concerned with. We may, however, contend that, even if it were not good for its own sake—which it is—yet some amount of material well-being is necessary as a foundation for other well-being, intellectual or moral, or what you will.

### A Science and an Art.

Like all studies, this of economics has its double outlook. As a science it is concerned simply with the search after truth for its own sake. It tries to say, “ In this way men act in the ordinary business of life,” “ In this way such plans have turned out in former times,” “ By these means men and nations have become prosperous, through these things nations have decayed and disappeared.” As an art it is keenly desirous of furthering the well-being of society : it states how a plentiful revenue may be available for the State, and how the subjects of the State may be put into the way of making a comfortable living for themselves. The early writers on economics were prompted by the praiseworthy motive of finding out how to lessen the irksomeness of life, and their successors have not wholly ignored the matter. “ In the sweat of thy face thou shalt eat bread,” is the primal curse—or blessing, maybe. But

we would have our bread plentiful and our sweat not excessive ; and economics tries to show how that wish may be fulfilled.

Economics gives light, knowledge for itself. Incidentally, and in passing, it gives fruit, too ; it shows men how to diminish effort in relation to satisfaction. So it was that Faraday, engaged in eager search after truth, disclosed to the world those things about electricity that enabled others to build up a new way of making nature serve man : he laid the foundation of electrical engineering.

The economist is modest ; his study is not now the vainglorious and triumphant science it once was. He no longer talks of "inexorable economic laws." He once spoke with ponderous authority, dictating to princes and peoples with an air of infallibility. He now professes to deal only with likelih hoods, with tendencies, and at most—when individuals or peoples make hazardous experiments—shakes a premonitory finger, never dreaming of uttering a peremptory command. Yet he holds that, in his own little sphere, he, like Faraday, may help mankind to make a living. He can advance man's well-being, can make wealth more accessible.<sup>1</sup>

<sup>1</sup> We may apply to our science of economics and to the corresponding art of "making a living" the comparison Professor James made of psychology and teaching : "Psychology is a science, and teaching is an art ; and sciences never generate arts directly out of themselves. An intermediary inventive mind must make the application, by using its originality. The science of logic never made a man reason rightly, and the science of ethics never made a man behave rightly. The most such sciences can do is to help us to catch ourselves up and check ourselves if we start to reason or to behave wrongly ; and to criticise ourselves more articulately after we have made mistakes. A science only lays down lines within which the rules of the art must fall, laws which the follower of the art must not transgress ; but what particular thing he shall positively do within those lines is left exclusively to his own genius." The business man it is that applies the science of economics to the art of creating wealth.

## Economic Wealth.

What, though, is this wealth with which economics is concerned ? For we must acknowledge that economics often steps off the platform of the ordinary man and uses words in a quite artificial sense. "Wealth" is one of those words. To the economist wealth is not coincident with whatever conduces to well-being, but to whatever commands a price. Men have wants. They seek satisfaction of those wants : and whatever satisfies the wants is a good, is a thing desirable. Some of those desirable things, things like sunshine or oxygen or the pleasant sights and sounds of nature, come to the just and the unjust, and no difficulties, no competition among men for supplies of them can arise. None can appropriate these at all events. Other goods are not freely bestowed. These, being scarce in relation to man's wants, can be obtained only by effort, by labour and sacrifice. We obtain them—the necessaries and comforts and some small share of the luxuries of life—in the ordinary way by exchanging our services for them. We are obliged to do this because they are scarce in relation to our wants. Wealth begins where scarcity begins.

Doubtless, our definition conflicts with the customary interpretation: "wealth of hair" does not in general connote baldness. It might remove misunderstanding if we spoke of "economic wealth." *Goods* make up the big class (the genus) that includes the smaller class (the species) of *economic wealth*. Whatever satisfies desire is comprised in the genus ; whatever also entails sacrifice is comprised in the species. Bread is wealth because we want it, but also because it costs us something. If, by some curious chance, bread should become plentiful as the air of heaven, it would continue to be a good, would still satisfy hunger ; it would cease to be wealth,

economic wealth if you like. It is, indeed, the object of science, giving man ever more and more power over nature, to render the requisites of life—food, warmth, and other embodiments of energy—so abundant that they cease to be a part of this economic wealth. Or, we may so express it, that community is best off where there is least wealth ; where plenty not dearth reigns.

When the economist speaks of *wealth*, therefore, he has in his mind the idea of exchange. However much he treasured a faded photograph, a withered rose, a tress of hair, he would not call them wealth : no one would give in exchange for them. For, since economics is a social science, the tastes of the individual are ruled out. So, too, since we can get nothing for what is to be had gratuitously, we include in our conception of wealth nothing but that of which more is wanted than is at the time and place available. Wealth is what answers some purpose of utility and what nature does not supply freely. Or, more shortly, wealth is what costs something.<sup>1</sup>

<sup>1</sup> One must apologize for distorting language in one's efforts to attain clearness. The distortion is perhaps inevitable. For economics, dealing as it does with the workaday life of men—*in agmen, in clamorem, in pulverem*, in the industrial and commercial arena where, amid tumult and dust, they strive to "earn a living"—makes use of words ever on the lips of men. These words have been battered and bruised by hard use ; they are used with looseness, have now one meaning, then another a little different. In themselves they are unfitted for strict reasoning. We can be certain of the meaning of a term in chemistry, or by reference can make ourselves certain. For the chemist, wise man, has made his own terms for his own purpose. The economist is handicapped in having to use terms fluctuating and ill-defined. Their denotation is one moment wide-embracing, is at another confined within narrow bounds : one economist, arguing that a slave is someone's property and a free man owns himself, includes *man* in *wealth* ; another in the interests of the dignity of man, refuses to classify him with commodities, with goods on the market stall. Their connotation, too, is indeterminate : one economist regards *the possibility of transfer to another*

We have said that economics is a social science. It concerns men who, in their efforts to earn a living, co-operate and compete with one another. It has no concern with the man in isolation ; it deals with society as a mutual co-operation. Its problems are problems of exchange. When we look at a thing from the economic point of view, we look upon it so far as it affects us in the every-day work of the world. Will it make harder or easier our efforts to obtain the necessities of life and the comforts making life pleasant ? The Swiss hotel-keeper looks at the scenery of his country not from the aesthetic point of view (not as admirable in its beauty) but from the economic point of view when he asks, " How great is its attraction for my visitors, from America and elsewhere, who, paying for the commodities I provide, enable me to make a decent livelihood for my family ? "

### The Guiding Idea : Economics a Social Science.

That economics is difficult none gainsays. It certainly takes as its subject matter what " comes home to men's business and bosoms " ; but therein it is we are hampered in our study. For we cannot isolate our subject matter in a quiet laboratory where we can ourselves control conditions.

The surgeon dissects a dead body before he operates

as essential to the idea of *wealth* ; another regards this property as an accident, and will have it that a man's genial disposition and his power to appreciate music is a very real part of his *wealth*. Doubtless there is a compensation to the drawback ; the economist's use of ordinary speech is some hindrance to his flight from actual fact. But, from the point of view of strict reasoning, the looseness of terms is to be lamented.

We shall try here to follow the two very safe rules : (1) To do no more violence than is absolutely necessary to the received meanings of words ; (2) rather to spend several words in explanation than to risk misunderstanding through too great brevity.

upon a living one ; the mechanic makes a working model and tests it before he builds the full-sized machine. Wherever possible, each step is tested by experiment before risks are run ; and the unknown is robbed of most of its terrors. Experiment, the great tool of the other sciences, is not, however, for us. Our laboratory is life's bustle ; our substitute for experiment is patient observation, undimmed by prejudice, unclouded by a wish to justify an accepted theory.

Man in society, not in isolation, is our subject matter. And our guiding idea is this, that men—grouped as a family or a village community, as a nation or as a community of nations trading with one another—form a co-operation of mutual service. We are all parts of a great productive machine. From the Prime Minister guiding the business of the empire to the policeman controlling the traffic of a busy street and to the knock-about artist doing his turn at the halls, we are all producers, and earn our living through this production.

The fact is disguised by the intervention of money ; it is none the less true. The producer renders services to the community. These services entitle him to claims upon the income of desirable things ; and he obtains, in the form of money, certificates enabling him to make good those claims. His services may be those of his hand and brain ; of the stored up wealth, or capital, of which he has control ; of nature's gifts like land which the arrangements of society have made his property.

### **Specialized Service becomes Generalized Income.**

His income is always paid for the services ; his money income is paid for his contributions to the real income of society, and in its turn pays for his share of that real income. The food we eat, the clothes we wear,

the house in which we live, the amusements that relieve our toilsome days, are provided almost wholly by others' efforts. We pay for them by our money income, an income got as pay for services we ourselves have rendered. A *value* is put upon our services ; we obtain for them services of equal *value*. The study of value and of the causes determining it is therefore a great part of our work.

It needs some effort of mind in these days to realize that our prosperity is bound up with and dependent upon the prosperity of others. For producer and consumer are not now, as in simpler times they were, in contact with one another. The shoemaker was once well acquainted with the man that wore the shoes ; the needs of the latter, indeed, occasioned the efforts of the former. Each had effectively brought home to him that the quantity of good things he could enjoy depended upon the quantity of good things he produced. By no possibility could the dictum "go easy" (ca canny) have had any success as a means of ensuring better conditions of life. When there was a close and, shall we say, sympathetic contact between the man making the effort and the man enjoying the result of the effort, it was hardly possible to doubt that consumption is based upon production.

### Modern Production.

Now, though, we have the factory system. Markets are world-wide ; the factory worker works for wages, and cannot know who is the ultimate consumer of his goods. Indeed, there is nothing he may call *his* goods ; can he say he has made a single yard of calico or one brass nail ? He is a small wheel in a complex machinery turning the materials provided by nature into the goods desired by man. He has only the producer's interest

in the goods, is concerned only about their finding a sale at a high price. The Lancashire weaver may read that of every four people in the world, one at least wears a cotton garment woven in a Lancashire mill. As an item of news it is less acceptable than the winner of the English Cup ; for he cannot take a personal interest in the Hindoo or the Chinaman that wears his product. Advantage of producer seems to be unconnected with advantage of consumer. The organization that we call commerce, the mighty distributing agency of the world, has come between them.

And the economist seeks to foster this commerce ; for, in spite of Wordsworth, he holds it altogether good “ when men change swords for ledgers.” Nor need the change make ennobling thoughts depart, nor the student’s bower to be deserted for gold.

The economist tries, however, to show that, though producer and customer are far apart, their interests are one. Producer is indeed consumer, though of goods others have produced. He produces to satisfy consumption ; and his own desire to consume is the motive power impelling him to work. Services still pay for services ; goods (embodied services) still pay for goods, though money obscures the fact.

### “ Law” in Economics.

Like other sciences, this of economics seeks to make for man’s guidance reliable statements, to frame general rules or—to use a more ambitious term—“ laws.” It tells the Chancellor of the Exchequer, for instance, that his increase of a tax on whisky will lessen the amount bought, that people will have recourse to substitutes, to tea and coffee and lemonade, and that the greater tax may well bring in a smaller revenue. The “ laws ” of economics cannot reach to the authority of

mathematical laws, cannot command acquiescence, or speak with authority. They express likelihoods only ; and, since they have to do with human action, as variable as Cleopatra in her moods—

Age cannot wither her nor custom stale  
Her infinite variety—

these likelihoods may be upset by some factor we did not take into calculation. The “ laws of economics ” are inferences that may be reasonably drawn about the actions of men in relation to wealth. They state, in other words, what the motives, measurable in money, are that impel men to action. It is a “ law ” of economics that a lowering of price brings a bigger demand, induces more people to buy : a draper may be faced by an even embarrassing crowd of eager buyers when his “ sale ” begins.

### “ Laws ” Essential to Society.

Our use of the word “ law ” implies that order and method can be traced in the business life of men. Order rules in the inanimate universe ; and science is engaged in exhibiting the order. Science talks of the law of gravity and asserts thereby that bodies always, whatever our wishes or efforts, do pull one another. It speaks of the law of refraction and means simply that rays do refract. Economic laws are unlike such “ laws of nature ” only in this, that they are less reliable, less reliable because they deal with a more complex subject matter : a man is a stranger compound than any chemical substance.

Whatever kind of society a man forms part of—a social club, a town community, a nation—his conduct is regulated by another than economic law. He is, we say, subject to rules, subject to commands—disobedience of which will be punished—bringing his actions into

harmony with the well-being of society. The earliest giver of such rules, laws, was the head of a family, who regulated its encampments and employments ; the latest are those under which a community binds itself through its representatives.

Economic "laws" are not thus peremptory and accompanied by the sanction of punishment. They are statements of the order and method, undesigned and uncontrolled, pervading economic life no less than they pervade nature itself. Throw a stone into the air and it will come down again, unless it finds a place to lodge upon ; lower the price of a seat in the pit and the house will be better filled, unless a reason more potent in its repulsion than the lower price in its attraction—warm summer nights, a better show elsewhere—prevents the cause from exerting its full effect.

### Economic Ideals.

"Sordid" science, as it is sometimes called, economics yet has its ideals. Man's welfare is the object aimed at ; wealth should be brought forth ever more and more easily, it should be shared ever more and more justly among those who have helped to bring it forth. In production it seeks to diminish the ratio of effort to satisfaction, to make the fraction  $\frac{E}{S}$  smaller and smaller.

A maximum of goods shall be at man's disposal without his being called upon for an excessive amount of labour and sacrifice. Necessaries shall be no longer wealth since they are to be had in unlimited measure ; and what are now luxuries for the few shall become comforts shared by the many. How effort may be saved, how production multiplied, is the point at issue. Economics is therefore keenly interested in such expeditents as the division of labour, where each worker confines

himself to the task for which capacity or training has best fitted him—to the enormous multiplying of products ; in improvements in the industrial arts so that men's labour is saved or substitutes found for it ; in making transport and exchange easy so that men, though separated by great stretches of land and sea, may help one another.

We need not despair upon this point. Nearly a hundred years ago Mill wrote of “ the perpetual, and so far as human foresight can extend, the unlimited, growth of man's power over nature. Our knowledge of the properties and laws of physical objects shows no sign of approaching its ultimate boundaries : it is advancing more rapidly, and in a greater number of directions at once, than in any previous age or generation, and affording such frequent glimpses of unexplored fields beyond, as to justify the belief that our acquaintance with nature is still almost in its infancy. This increasing physical knowledge is now, too, more rapidly than at any former period, converted, by practical ingenuity, into physical power. The most marvellous of modern inventions, one which realizes the imaginary feats of the magician, not metaphorically but literally—the electro-magnetic telegraph—sprang into existence but a few years after the establishment of the scientific theory which it realizes and exemplifies. Lastly, the manual part of these great scientific inventions is now never wanting to the intellectual : there is no difficulty in finding or forming, in a sufficient number of the working hands of the community, the requisite skill, combined with the requisite intelligence, for executing the most delicate processes of the application of science to practical uses. From this union of conditions it is impossible not to look forward to a vast multiplication and long succession of contrivances for economizing

labour and increasing its produce ; and to an ever wider diffusion of the use and benefit of those contrivances."

What he said has been abundantly fulfilled ; our wireless telegraphy and telephony, our aeroplanes, the work of radium and chemical compounds, seem again to herald new conquests by man over nature. In the production of wealth progress is indisputable—

Men, my brothers, men the workers, ever  
reaping something new :

That which they have done but earnest  
of the things that they shall do.

The ideal in distribution is harder to achieve, harder to keep before us, perhaps. It is linked up with production ; for the ideal distribution is that which conduces to the most abundant production. More than this is implied, though. The questions we ask ourselves when we examine an existing method of sharing the wealth brought forth by co-operative effort are such as these : Is reward in proportion to the services the co-operator—or his property—has rendered to the community ? Are the fruits of the productive agents assured to their creators and preservers ? Is there freedom of bargaining and a minimum of constraint ?

We have gone some way towards a satisfactory answer to all these questions ; and there is no reason why one should not look for further improvement in distribution. The almost daily perfecting of transport and exchange is before all eyes.

The business man, naturally perhaps, despises the teachings of economics. He is, and must be, more keenly concerned with the success of an individual undertaking than with the general well-being. The farmer that grows potatoes, the play producer who starts a new musical comedy on what he trusts will be a record run, the master of a trawler who reaches Billingsgate with his catch, have only a slight interest in the well-being of their industry as a whole. What they have a keen interest in is that

they themselves may prosper. As a fact, it will be to their advantage as producers that others in the same line bring little or unacceptable goods to market, that the farmer shall have a bountiful crop while his neighbours lament failure, that the theatre manager has found a play to hit public taste while his competitors night after night face empty houses, that the fisherman meets buyers clamorous for his catch since others have toiled the night long and caught nothing.

Since economics deals with the general, not with the particular, it is bound now and again to run counter to the individual instance ; and bound therefore to raise impatience in the mind of the man who sees its generalization seemingly falsified. A century ago Scott, through the mouth of one of his characters declared : " Here stands Theory, a scroll in her hand, full of deep and mysterious combinations of figures, the least failure in which may alter the result entirely, and which you must take on trust ; for who is expected to go through and check them ? There lies before you a Practical System, successful for upwards of a century. The one allures you with promises, the other appeals to the miracles wrought on your behalf. The one shows you provinces the wealth of which has been reaped under her management ; the other, a problem which has never been practically solved. Here you have a pamphlet, there a fishing town ; here the long-continued prosperity of a nation, and there the opinion of a professor of economics that in such circumstances she ought not by true principles to have prospered at all."

## CHAPTER II

### UTILITY

*“Fantastic tricks enough man has played in his time, has fancied himself to be most things, down even to an animated heap of glass : but to fancy himself a Dead Iron-Balance for weighing Pains and Pleasures on, was reserved for this his latter era. . . . There stands he, his universe one huge manger, filled with hay and thistles to be weighed against each other ; and looks long-eared enough.”*

#### What is Utility ?

THE economist does not deserve this attack, though he does talk a good deal about utility—the power to satisfy wants—and though he measures constantly the utility (pleasure) against the money spent for it (the pain endured). He weighs burdens against benefits, money being the means of comparison. He is bound to do this in a society living through exchange ; where men are rewarded in proportion, roughly at all events, to their production of utilities.

For when we speak of “production” we are making use of a shorthand expression ; we imply the “bringing out of utility.” The carpenter is a producer, because, by arranging wood and screws in a way his intelligence and training have shown him, he “makes” a table. But all the labour in the world could not make the material. What the carpenter can do is to make the wood more serviceable to man, to make it an object more greatly desired. He creates *utility*, additional capacity for satisfying human wants.

And we are to note that these wants are, in a civilized community, of infinite variety ; they are rivals of one another ; they succeed one another in inexplicable

manner ; they need for their satisfaction all that science puts at our disposal. We may say that to civilize a people is to awaken new wants—for enlightenment, for refinement, for leisure—among them. Civilization is the state of having more wants and of being able to satisfy them. The infant, muling and puking in his nurse's arms, wants nothing but a supply of milk and cot-room. As he lives through his seven ages his wants are multiplied and amplified ; he would leap to pluck honour from the moon, or dive to snatch treasure from the depths of the sea. More and ever more things have utility for him as his knowledge of desirable things grows ; he will never overtake his wants. And the economist approves of this increase of wants ; “ sweet content ” is not his text, but ambition “ to strive, to seek, to find, and not to yield.” “ It is better,” he says, “ to be a human being dissatisfied than a pig satisfied ; better to be Socrates dissatisfied than a fool satisfied. And if the fool and the pig are of a different opinion, it is because they know only their own side of the question. The other party to the comparison knows both sides.”

A thing has utility when it is desired by man and when also it is not available in plenty for whoever wills ; and the intensity of the desire measures the sacrifice man is prepared to make rather than go without that thing. The tree is desired—has utility—because it can make a table ; the table because it still more directly satisfies desire : built as we are we must for our comfort have a solid surface above the ground.

Our word *utility* is, doubtless, artificial : it is not synonymous with usefulness ; differs, indeed, in two important ways. We all know well enough that many things none could call useful are yet desired ; are desirable, and from someone's point of view are worth

a sacrifice. These therefore have utility. We may be sorry to acknowledge that they have utility. But we are not, as economists, speaking from the pulpit ; we do not presume to discriminate among man's desires, to tell a man he should leave beer for books, should attend grand opera and not the music hall.

Utility, again, is not opposed to hurtfulness. Cocaine may be deleterious ; but if men want it and are prepared to give for it, then, however much we deprecate the necessity, we are constrained to class it among "economic goods." It forms a part of wealth. Whisky, our doctors tell us, neither strengthens nor warms. What matter ? People think it does, or not thinking anything about the matter merely like it. They want it, and its being wanted imparts utility to it ; and the very man who knows it to be harmful drinks it. Some justification he will find. As Professor James says : " It is a new brand of liquor which the interests of intellectual culture in such matters oblige him to test ; moreover, it is poured out and it is sin to waste it ; also others are drinking and it would be churlishness to refuse. Or it is but to enable him to sleep, or just to get through his job of work ; or it isn't drinking, it is because he feels so cold ; or it is Christmas Day ; or it is a means of stimulating him to make a more powerful resolution in favour of abstinence than any he has hitherto made." At any rate he wants the whisky, he cannot get it without some effort, some sacrifice ; and for that sufficient reason it has utility to him.

Anything has utility, forms therefore a part of wealth, when (1) it supplies some want, satisfies some desire (whether or not that desire is a reasonable one), and when also (2) it cannot be had in the quantity sought without some sacrifice, some spending of money, or some exertion of body or mind.

## Utility and Usefulness.

In order to get clear ideas upon this question of utility and its relation to value, we are constrained to make use of a few special terms and to do some violence to the English language. There is some connection certainly between usefulness and utility. Unless a man thinks he can use a thing—unless he wants it for some purpose or other—that thing will have no utility for him. But he needs to use only a limited amount ; for, though desires in general may be indefinite, a single desire becomes slowly or speedily satiated. Then, if he has this thing in greater abundance than he can use, it becomes a nuisance to him : he has an embarrassment of riches. He would pay to get rid of some. The first draught of water to a man perishing of thirst gives infinite satisfaction ; but a point is quickly reached when drinking ceases to give satisfaction, becomes a discomfort, ultimately, indeed, a torture.

Wants, it was said, compete with one another. Let there be a craze for the pictures, and down go the theatre receipts ; the buying of stainless steel and the other labour-saving devices lessens the want of a maid-servant.

And the fact that many possibilities of spending our incomes are with us, brings it about that a single want lessens in intensity ; and the commodity satisfying that want diminishes in utility.

We speak, therefore, of “diminishing utility,” a strange phrase that expresses what needs no proof, that as we have a greater quantity of a commodity we lose some of the intensity of our desire for more. A little may only whet our appetite ; but Oliver Twist himself would be less eager for more if his bowl were replenished. “Appetite grows by what it feeds on” cannot continue for any length of time. Having already half-a-dozen shirts, I am not particularly desirous of another ;

shirts have diminished in utility for me. On the other hand, it is when the well is dry that we appreciate water most highly. *C'est quand le puits est à sec qu'on connaît la valeur de l'eau.*

If, for instance, the housewife buys 6 lb. of sugar when it costs 6d. per pound but buys five only when the price rises to 7d., she would seem to indicate that she does not consider the extra pound after five to be worth 7d. to her. She willingly pays the 7d. for the first, second, and so on ; she would probably be prepared to give much more than 7d., if she were obliged to, for a single pound. We may assume that the increment, the increase of satisfaction, from the additional pound hardly appears worth 7d. to her. Being, as she is, a careful buyer, anxious to spend her house-keeping money to the best advantage, she reflects that the necessary 7d. could be better expended elsewhere.

### Preferences may Change.

Certainly, circumstances may alter, and preferences—which determine values—may change. Have you ever had occasion bitterly to regret that you had squandered your trump cards at the beginning of play, putting them out “as rich men give, not caring how they give”? One towards the end of the hand would have made such a difference. Land in England before the War was much the same as land during the War ; but, since we were in great measure cut off from foreign supplies, farm land in England rapidly increased in value. Men began to prefer it to other things upon which they might have spent their money. Corn fields began even to climb the mountain slopes ; land that before would not by any sensible farmer have been cultivated, though he could have had it for nothing, commanded a quite appreciable rent.

Changes in transport facilities invariably bring about such changes in relative value. With a "new" country this is very clear. In 1909 an Australian took at a nominal price a grant of rough land in the Penang mountains, a district about 100 miles from Sydney. Soon came rumours that a railway was to be run through the district. At once, before he had started breaking, the settler was offered ten times his outlay for the land. As the railway began working, the worth of his land increased rapidly. The fruit on the land could now be sent readily to a big market in Sydney. Meantime the worth of market gardens and fruit farms near Sydney fell; as the former monopoly was invaded by the new competition, prices could not be maintained.

### Marginal Utility.

Clearly, as the want of a thing lessens, we become more and more reluctant to make great sacrifices to satisfy that want; we want other things, too, and the appeal of these becomes more insistent as the first appeal becomes fainter and fainter. Or, to put it another way, the money I must pay to obtain a further supply of the first commodity would buy what would give me greater satisfaction. I therefore divert my purchasing power. A man, having happily secured a house at the outset of his married life, is furnishing it with chairs. How many shall he buy? His want is not insatiable; he would find a hundred chairs only a nuisance. And his purse is not inexhaustible; he must keep proportion, must not buy too many chairs and too few saucepans. Two checks upon his buying are therefore present, increase in his supply, decrease in his purchasing power. Neither his need for chairs nor his power to get them is boundless.

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One chair he must have; even his army experience

has not taught him to think the floor a comfortable seat. He would be prepared to pay high for one. The second chair, too, is greatly desired ; he would have seating capacity for at least two. Each successive chair has a lower desirability than the foregoing ; and there comes a point at which he decides he can use his money better than by buying further chairs. The chair he thinks it just worth while to buy is his *marginal purchase* and gives him *marginal utility*. All the preceding chairs are worth more to him than the price he pays.

We may better illustrate the idea of diminishing utility and its relation to the price we pay by considering how a business man examines into his costs. For your objection that the ardent lover making a home for the loved one is hardly capable of calculating in such cold-blooded manner, is, maybe, a valid one. But the business man cannot afford to let whim or caprice rule ; if he does not calculate to a nicety he goes under. Will it pay ? is his obsession ; and he will constantly be weighing the benefit he receives from an outlay against the benefit from an equal outlay in another direction. Would a counting machine or a multigraph " pay " ? He would welcome any number of clever devices for smoothing the rough ways of business. But they cost much, and the help may be dearly bought if other services are starved. One typist in his office is perhaps indispensable ; two, or three, or four, may be very desirable ; he would have no difficulty in deciding that a dozen would not pay. Where is he to stop ? If at the fifth, we may be sure that he has not balanced the whole benefit (the total utility) of the typists against the wages he pays them. He has balanced the additional benefit he will derive from an additional typist against the additional wages he will require to

pay. And he has made up his mind that the additional benefit from a sixth typist is not worth the wages.

### Consumer's Surplus.

When the price paid for a thing is less than would of necessity be paid, the buyer is benefited. This excess of what he would have paid rather than go without, over what he is obliged to pay, is the *consumer's surplus*. When, in order to send a letter to my friend at the other end of the world, I would gladly pay £1 but have to pay only 3d., I have a consumer's surplus of 19s. 9d. This is part of the benefit I derive from the place and the time in which I live. The surplus is due not to my own efforts, but to my membership of the society in which I live.

The price we pay for the marginal increment (that giving us the marginal utility) is, in our country of uniform price, the price of all our purchases. Price, therefore, does not measure the total utility to us unless that total utility is the same as the marginal utility. If I want to buy a motor bicycle and need to deliberate long before, having regard to the benefit I shall get from the bicycle and also to the necessary curtailment of my expenditure in other directions, I determine to buy, then it is probable that the price I pay measures both total utility and marginal utility. I shall in this purchase have no consumer's surplus.

In other things there is a great consumer's surplus. A thing like salt is exceedingly useful and, at need, a man would sacrifice much to get a supply. But, since it is so easily obtained, the need does not arise ; and the price he pays has little relation to the benefit he gets. Though the price were doubled he would put no less on his plate ; though it were halved he would feel no great elation. He is fortunate in that the things

most needed cost him so little in comparison with his benefit from them : the good government he enjoys, the orderly society in which he lives, the other advantages he derives from being a member of a civilized community yield an enormous consumer's surplus over the poor taxes he pays.

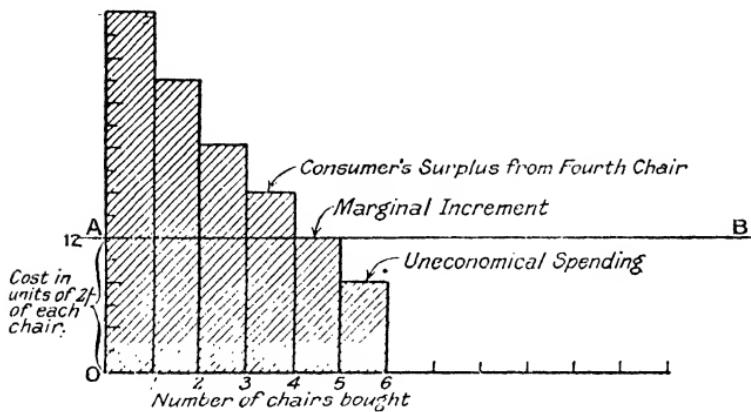
A pineapple, on the other hand, has no surpassing use ; a man could easily dispense with it. Yet it commands a great price ; it has, we say, a great marginal utility, and if a man wants one he is required to pay highly for it. The most useful of commodities are the cheapest because they can be produced at so little cost and in such abundance ; less useful things—a ball-dress or a motor bicycle or a diamond pin—the lack of which we should hardly feel, are the dearest because they cost so much to produce and are relatively scarce.

### Diagrams only Illustrations.

Our ideas will most likely gain in definition if we consider a simple diagram. Suppose we measure along a horizontal line a commodity we consume, the line lengthening as the amount consumed increases. And suppose, in order to bring consumption and satisfaction into relation, we measure along an upright line the satisfaction we derive and the sacrifice we make. The objection that we cannot represent satisfaction or sacrifice—mental states that is—as a definite thing, is admitted. Who buys a shillingsworth of happiness, or sells sixpennyworth of wretchedness ? Still, for illustration, the diagram on page 25 may serve.

The diagram applies, shall we say, to the chairs spoken of above. One yields enough satisfaction to make us willing to pay many shillings for it. As things are, our having uniform prices—where not the buyer's necessity but the seller's effort to make the greatest

profit from a large number sold fixes price—we shall need to pay only the market price. This is pretty certain to be a good deal less than the measure of our satisfaction. We have a surplus; our ten shillings, or whatever it is, give us more than ten shillings' worth of satisfaction. The surplus at each successive purchase grows less; and there comes a point where we doubt and deliberate before buying further. Sacrifice and satisfaction are about equal. Here then is my marginal purchase.



$OA$ , which we may put at 12, measures the price of a chair and also the satisfaction I get from the fifth chair. The fifth chair will, if my outlay is governed by sober reasoning, be my last purchase. The sixth one would not "pay"; I am called upon for greater sacrifice than the satisfaction anticipated. Any area above  $AB$  will measure my consumer's surplus. And, we should note, the moving of the line  $AB$  up or down should make me inclined to buy fewer or more chairs.

We may, perhaps, sum up the matter in this way. Whatever a man's income is, he distributes it so that, roughly, his last purchase of every commodity gives him

the same amount of satisfaction. The last shillings-worth—of bread and beef, of tobacco and books and beer, of rides on the bus or of visits to the theatre—in a reasonably spent income satisfies a desire of the same intensity. The utility of this last portion purchased is the marginal utility. Thus, though a commodity like bread may be infinitely useful, it may not have a great marginal utility. Rather than go without it altogether we should give much ; but we should not value highly a small addition to the amount we are accustomed to consume. Nor should we suffer greatly if our consumption were curtailed by a small percentage.

With a commodity like potatoes, or bread, or salt, the first portions purchased give a satisfaction far greater than the price paid measures ; if during the year a housewife buys 700 loaves, these have a total utility infinitely greater than the utility of the 700 sixpences she pays for them. This sixpence measures the marginal utility ; the total utility is usually far greater than the multiplied marginal utility. Because we live in places where, and in times when, we can satisfy our needs with little expense, the *total utility* (the whole satisfaction we get from our expenditure, derived from the services we have performed) far exceeds the *marginal utility* (measured in the prices we pay).

## CHAPTER III

### VALUE : FIRST CONSIDERATION

*“To many a Royal Society, the Creation of a World is little more mysterious than the cooking of a dumpling ; concerning which last, indeed, there have been minds to whom the question, ‘How the apples were got in,’ presented difficulties : But now have we not a Doctrine of Rent, a Theory of Value ?”*

#### Provisional Definition of Value.

In a community living by exchange some such theory is called for ; and we need not apologize, to Carlyle or anyone else, for our effort to form one. Whenever we are buying or selling the idea of value comes to the front ; economics itself has at times been called “ the science of value.” Economics, like other sciences in this, tries to get an objective means of measurement ; and money provides the means. Money measures value. Not the subjective worth of a thing to me, its owner, but the objective money that you, its possible purchaser, will give for it, fixes its value. There is no value apart from a market.

Value, then, is the purchasing power of a thing, its command over other things. If our humorist had written *value* for *worth* in his couplet—

The worth of a thing  
Is what it will bring,

he would have answered the question “ What is Value ! ” The value of all things is measured by the relative appetite of the contractors, and therefore the just value is that which they are contented to give. If men and women of mature judgment are happy to give in order to get hurtful drugs or bombs that are of “ use ” for nothing except destroying life and property, then the

economist must include these same drugs and bombs in his list of goods. In short, "goods" to him is a neutral word, expresses neither praise nor blame.

Value is not a property of a good itself and independent of other goods. Value signifies a comparison, a relation between goods. Goods have properties of their own. They would not be "goods" at all unless they conduced to some purpose, satisfied some desire. Bread has the property of ability to satisfy hunger ; an overcoat has the property of affording some protection against the winter weather ; the light of the sun has the property of giving genial and exhilarating warmth. Some "goods" are, happily, free to all who will partake of them ; none can appropriate them and charge a price for them—

No price is set on the lavish summer ;  
June may be had by the poorest comer.

Some "goods," however, are available for man in less quantity than is desired. They can be obtained only by labour and sacrifice, only by giving up a portion of our time and energy. These goods alone have economic value (they are the wealth that economics studies). Since man's life began there has been this distinction between real goods and what, for want of a better term, we call "economic goods." The cave man, wakened by the morning sun, looked from the mouth of his home across the open, drinking in the morning air and, maybe, dimly appreciating the beauty of the scene. He thought of the warmth of the sun and the pleasant softness of the piece of grass by the side of the cave. These were free gifts ; but, "No hunting—no dinner," he said, and passed into the forest in quest of his economic goods. The City man, too, must postpone his wishes to enjoy the "free goods" offered to him in the quiet sun-bathed village to his work for the "economic goods" that are not sent with unstinting hand.

Comparison—the relation towards others—is always present, either expressly or implicitly, when we speak of value. Value is not a measure of absolute worth ; it is not worth as it would be assessed by a senate of the wisest. Value is merely the expression of the preferences of the market : gold is not more valuable than iron because it is more useful to humanity ; it is more valuable because, things being as they are—I living in London in the twentieth century—I should prefer it to iron. Our arrangement in order of preference may differ materially from another's and from our own at another time or in another place. If it were not for this difference in estimates trade would be killed. Each party to an exchange gives what he values (prefers) less for what he values (prefers) more.

We can, if we adhere to this interpretation of value as a comparison, hardly speak of the "intrinsic value" of a good. The amount of satisfaction I get from a good bears no relation to what I give for it, nor to the loss sustained by him who parted with it. And the satisfaction from the same thing may vary in different times and places : the water used in reckless profusion in bath and on lawn would have been doled out with sparing hand during the hot days of the Gallipoli campaign. Goods satisfy a more or less intense desire. Certainly the strength of this desire helps to decide what we are prepared to exchange for them ; it helps, that is, to decide their value, their relation to other things. Unless we thought we could in some way or other use a thing, we should give nothing for it. Once let us learn how to use the thing, and we want it ; for knowledge creates value. Value is an accidental, not an essential property of things. It arises simply because there is not enough of the desired thing to go round. If, by some revolution in human affairs, tobacco became

as annoyingly plentiful as the leaves that drop off in October, tobacco would cease to have value. It would lose this accidental property due to relative scarcity.

### Price and Value.

Price is an accurate measure of value of goods at the same time and place. To this extent it is true that "Price is the Value of things expressed in Money." We should, however, come to absurd conclusions if we looked to prices for guidance in measuring values, where other times, other minds, are concerned. The annual earnings of the fourteenth-century carpenter were, we are told by Rogers, about £4 ; we should need to make many allowances before we deduced a relation between the values of the services of this worker in the "Merry England" of our sentimentalists, and his descendant. Price, money valuation, provides the means of comparison here and now, or there and then. Money, in other words, supplies the common denominator : my knowledge that a sheep costs £2 and a cow £20 enables me to say that a cow is ten times as valuable as a sheep.

Why should one thing be preferred to another ? In other words, what causes value ? We sometimes say that value depends upon demand and supply ; and this is right. But we need to go further and ask ourselves upon what demand depends, upon what supply.

First, we are to note that demand is a short expression for "Demand of the Market."

At a particular price a greater or less quantity will be bought in any given market. This quantity is the demand at that price ; there can be no demand apart from price. A novel issued at 9s. will find 5,000 buyers ; the same novel issued in cheaper form at 1s. may well find 500,000 buyers. Demand, therefore, is not the same as desire ; evidently many of the 500,000 had a desire

for the novel even before they could buy it at the lower price. I may have a great desire for a thousand-guinea motor car. My desire, however, is no part of demand ; it does not affect sales, since what purchasing power I have is wanted for more urgent needs than a luxury like a motor car. Divide the price by four and we may talk ; I may become a part of the market. 5374

As the price falls (other things remaining the same) the quantity bought increases and, conversely, as the price rises the quantity bought decreases. There will, for any article widely used, be sure to be many people wondering whether or not they shall buy : a little difference one way or the other decides the matter. If, for instance, the Chancellor of the Exchequer, in his anxious search for revenue, doubled the tax on beer, making its price what most people would consider an exorbitant one, he might easily find that the beer tax brought in less than before, not more. So many would have been led to decide that the utility of water (or tea), coupled with the ability to direct purchasing power elsewhere, is higher than the utility of beer. In like manner, we are told that more postage was derived from post cards at 1d. than from post cards at 1½d. The amount of money people have to spend is limited ; the choice of ways in which to spend it is well-nigh unlimited. There are many competitors for a man's spending ; and if one competitor is handicapped a little, the others gain on him.

### **Demands, Elastic and Inelastic.**

A change in price will hardly affect the amount I buy of some things ; it will greatly affect what I buy of others. Some things, we say, are inelastic in demand ; they respond tardily and reluctantly to changes in price. We note, for instance, that when the Indian

Government needs further contributions from its many millions of subjects, it finds an easy method in raising the duty on salt, on an article that—giving a great consumer's surplus—is *inelastic* in demand. Other things respond speedily and eagerly. They are *elastic* in demand ; far more are sold at a lower price, far fewer at a higher.

Changes are slow in regard to articles—like water and bread and salt—that give a great consumer's surplus. If the price of a loaf, or of a packet of salt, or of a reel of cotton, went up 10 per cent we should consume very little less ; we should meet the additional cost by curtailing other expenses, perhaps upon easily dispensable luxuries. Demand for such commodities—for loaves and packets of salt and reels of thread—is *inelastic*. A slight change in price may—in things giving us but little consumer's surplus, in things about the purchase of which we are already hesitating—cut off a great demand. When sale speedily and greatly responds to changes in price, demand is said to be *elastic*.

This problem of elasticity is a practical one. It is a question of the greatest interest to the business man, especially to him who puts things—whether commodities or services—upon the market at fixed rates. Would halving the price of this safety razor more than double, perhaps treble or quadruple, the sales, so that I could have the advantage of mass production ? Would doubling the price of this journal so cut off sales that the value of the paper as an advertising medium would largely disappear ? This picture-house is crowded each evening ; could I put up prices without killing the attendance ? When I cut hair at a charge of a shilling, I spend much of my day in waiting ; shall I reduce the charge to sixpence and so multiply my customers, and induce them to come more often ?

The possibility that substitutes for a thing may be available must also be taken into account. The demand for anything is likely to be more elastic the more easily substitutes for that thing can be obtained. It would be ill-advised if the fares of the buses were put up along the tram routes. In some industries a very small addition to the cost of working a process by hand has induced employers to adopt mechanical devices. The farmer cannot raise the price of his butter without impelling people to have recourse to the product made from the oil-bearing seeds of tropical Africa ; he cannot charge more for his milk without, in quite appreciable manner, making greater the demand for condensed milk from abroad. Large groups of commodities move upwards and downwards in price in sympathy with one another because they are acceptable substitutes one for another. If beef goes up so does mutton ; if cabbages, so do carrots ; if coal, so do gas and petroleum and wood.

### **Supply and Prices Obtainable.**

Supply, too, is like Demand, an elliptical expression : we are to expand it into "Amount offered for sale at a Price." The term is not equivalent to the stock in existence ; market price has its effect on supply as on demand.

As the price rises (other things remaining the same) the quantity offered for sale becomes greater ; and, conversely, as the price falls the quantity offered decreases. Just as demand varies with price so does supply. A rise in the amount that people are prepared to give for a thing is almost invariably accompanied by further supplies ; if prices fall, sellers withdraw their offers. They begin to look to the future or to other markets. Supplies are adjusted in response to

movements in prices. When, in response to the demands of the miners, the price of coal went up there was an increased demand among the general public for such economizing expedients as gas cookers. The price of these, too, went up in sympathy ; but the increased price induced many makers to increase their output and attracted new men to the business. The supply was increased so much that the price of the cookers came to be in the end far below the original price.

The money to be obtained guides supply. The manufacturer looks to the offers he can get from the merchant before he determines upon the extension or the contraction of his operations. Money enables us to turn specialized production into generalized consumption. It enables each one of us to concentrate upon his own job ; and in this way enables us to add more abundantly to the goods at the disposal of men. Money does more, however. The prices being obtained show where scarcity prevails so that more than ordinary profits are being gained ; and many competitors strive to share in these extraordinary gains. Prices show, too, where and when goods have been produced in too great abundance ; and the labour exerted to supply these goods is diverted to directions more in accordance with the wishes of the community.

There is, in other words, elasticity in supply as in demand. Prices can hardly change without also affecting supply. But we should note two different classes of goods in relation to supply. Some, like wheat and potatoes, are obtained directly from the soil and, as a rule, when prices obtainable indicate that more of these are wanted, the extra supplies can be obtained only on more and more onerous terms. When, in our time of stress during the war, we had urgent need of the yield of the fields we had to take into cultivation more and

more land. The expenses of production on this land were of necessity heavier than on more fertile or better situated land. Increased supplies could, therefore, be put upon the market only at increased costs ; and prices tended to remain high.

Some goods, however, though all derive their raw material from the land, owe but a slight proportion of their cost to the cost of this material. A yard of silk allots little of its price to the cost of rearing the silk-worms ; a sixpenny reel of Coats' sewing cotton will give the tiniest fraction of a penny to the negro who picked the pods from the cotton shrub in Texas. Most of the costs are manufacturing costs ; and in manufacture the tendency is, as the output becomes larger, for the cost of each unit to become smaller. Increased supplies may, therefore, be put upon the market at lower costs ; and prices tend to go down.

The supply of labour, too, is governed by prices (wages) obtainable. For we may look upon wages (meaning thereby the whole of the advantages a worker obtains from his occupation) as the price at which a man sells his labour (the expending of his skill and industry). When for a particular kind of labour the price paid (the wages) rises, men are attracted to that kind ; the supply may well become so great that the price becomes inordinately low. So it was in the engineering trade. For some years before, and during, the war of 1914-1918, there was an eager demand, reflected by high wages offered, for men in the engineering trades. To apprentice a lad as an electrical engineer seemed to be the most reasonable thing to do. In the last part of 1922, however, the engineers were in sorry straits ; wages were down and the wise father was looking elsewhere for an opening for his son.

“ Prices are fixed by Demand and Supply ” is the

summary of all this. The much-abused statement means simply that, owing to the competition among buyers with one another, and sellers with one another, prices will be so adjusted that there will be an equality between the amounts people are willing to sell and the amounts people are willing to buy. If at any moment in a market—where both buyers and sellers have fairly good knowledge of market conditions—a too high price prevails, some sellers will not be able to dispose of their stocks. These will, in order to attract buyers, lower their prices ; and, as a man will not give ten shillings for what he can get for nine, other sellers must follow suit. Conversely, when a too low price prevails, buyers fail to get the supplies they need. For the less anxious sellers withdraw their stocks. The more eager buyers offer higher prices, and prices in general rise.

### Competition.

The force that thus adjusts supply and demand is competition, competition which to different people, or alternatively to the same person, may be "Enlightened selfishness, which is the means whereby each, though he thinks solely of his own interest, promotes the greatest good of the greatest number," or "Each for himself, and the devil take the hindmost." Every buyer has a maximum beyond which he will not bid for a commodity ; he hopes, however, to get the commodity for much less than this maximum, and he strives against other buyers to get his supply at the lowest cost. The seller has a minimum below which he will not part with his supply ; he hopes, however, to dispose of his commodity for more than this minimum, and he strives against other sellers to dispose of his supply at the highest cost. We may roughly look upon the competition as the wish not to get left. The seller tries to get

money for his goods before another seller intervenes ; the buyer tries to get hold of goods before another buyer forestalls him. The effort of the first is restricted by the wish to obtain as high a price as possible ; the effort of the second is restricted by the wish to pay as low a price as possible.

### **Cost of Production and Value.**

The sense in which value is determined by the cost of production has now, one hopes, become clearer. That such cost has something to do with fixing present and prospective value is clear. When tin is quoted at £200 a ton and copper at £80 we shall not be far wrong in assuming that the expense of placing the first upon the market is two and a half times the expense of placing the second on the market. The relative usefulness hardly enters into the matter. The strange dishes with which jaded appetites are stimulated are not really, not even in the imagination perhaps, more enjoyable, more to be desired than a plate of milk and oats. But their cost, including the reward of the ingenious planners of those dishes, is ever so much greater ; and the few that seek them require to pay heavily for them. It is not that they are the better food for a hungry man but that they cost more.

We should find our argument unavailing, though, if we put forward as a conclusive point, as one that must reconcile the prospective buyer to give the price we ask, that our article had cost so much, such labour and sacrifice. His reply might well be that he could get it elsewhere for less. If he can, we are obliged to lower our price. Cost has a bearing on value ; but it is not the sole determinant. The rubber planter who sees the market price 9d., and who can pay a dividend to the confiding subscribers of capital only if the price is 10d.

a pound, cannot refuse to sell at the lower price, at a price unable to cover cost. If he did so the buyer would resort to the Ceylon planter whose profits are assured so long as the price is above 6d. However much pains I took to build a hotel at Peacehaven or other stretch of lonely coast, I should get no big price for it unless many were eager for such a hotel.

“Here is a poem,” says an aspirant to the laurel wreath, “on which I have spent many a weary hour ; I have polished it and re-polished it with as great assiduity and care as Gray’s verses ever received. No publisher, however, takes cost of production into consideration. Newbolt or Kipling gets more for those little things he produces without apparent effort, as spontaneously and inevitably as the birds sing.” Is he justly aggrieved ? Not if we take the view that the community, his fellow producers, are justified in asking that all should produce what the community wants. What the community wants it will pay for ; the desired thing that can be brought to market only at a great expense of mind and muscle the community will pay for well. It cannot, indeed, obtain that thing in any other wise. If a man produces nothing but poems, he runs the risk that the people want, not poems, but potatoes. Since we are dependent for our living upon the good offices of others we cannot afford to disregard the wants—or even the whims and caprices—of others.

### Regulating the Supply.

Cost of production influences prices by affecting the supply. Producers, of rubber or of anything else, will not go on indefinitely at a loss ; they will cast about for a more satisfactory employment of their time and talents, and if possible, will divert to more fruitful enterprises the capital entrusted to them. The supply available

for those prepared to pay for part is lessened ; sellers find buyers more eager ; and the eagerness is evidenced by higher bids, by rising prices. On the other hand, when it is evident that producers—of oils or ball-dresses, or wireless apparatus—are getting from the community more than the cost of production, including in that cost a reasonable rate of profit, then others begin to produce those things. The supply is increased and the price usually falls.

A few precautions are necessary, however, before we can apply such a conclusion rigorously. Some peculiarities of a commodity may enable it to remain long at a level far above cost of production. Sewing-cotton is such a commodity. It is essential for the tailor and the dressmaker, and the housewife can hardly dispense with it. Yet its cost does not enter very largely into the cost of a suit ; even a doubling of the price would cause but a slight slackening of the demand. The amount required is fairly constant, therefore ; and those who control the supply need only such moderation in fixing prices as will afford no potent incentive to new producers. And, as it would be a particularly hazardous undertaking to initiate, in opposition to a firm of long standing and in command of limitless resources, a sewing-cotton factory, the producers are pretty well secure on the side of supply, too. In theory, at all events, it would appear that the producers of a small but necessary article have ample opportunity to tax the community at their discretion.

Judging from market reports, too, we may suppose that a commodity like tea is sought for at a fairly constant rate. A poor tea harvest simply means that inferior leaves, which in ordinary years would be thrown away, command a price. A bountiful harvest means that the best leaves must be offered at lower prices.

The owners of plantations producing the better sort profit from a bad harvest ; and we have the strange spectacle of the chairman of a tea company congratulating the shareholders on the meagre crops and declaring that they " could face with equanimity a succession of good crops."

### An Elastic Demand.

It is very different with commodities that are elastic in demand, commodities like strawberries in summer and warm drinks in winter, the sale of which is greatly affected by changes in price. If the price of salt goes up, either because the salt deposits are becoming more difficult to work or because there is an effective combination among those who put salt upon the market, we do not use perceptibly less : the rise in price means a greater aggregate of money to the producers ; for we still put the same amount of salt on our potatoes. The producers, including the salt miners, may at their will obtain more from the community. Or, looking at the matter from another point of view, if a harassed Chancellor of the Exchequer sought to swell the revenue by a 10 per cent duty on salt, he could anticipate with something like accuracy what he would get.

Contrast salt with coal ; and we shall realize why it is that the coal miners' wages can be raised only with the greatest difficulty. In the first place coal is not indispensable even in a land of leaden skies and biting winds ; fuel substitutes, oil or wood or electricity derived from the force of falling water, are available. The price of coal to a steel smelter or to a railway company is not a matter of indifference, as the price of sewing-cotton is pretty well to a dressmaker, or the price of salt to the housekeeper. It is almost certain, therefore, that an increase in the price of coal means a less, not a greater

amount of money for distribution among coal producers, including the miners. The smaller amount that can be sold at the higher price will bring in less money than the larger amount sold at the lower price did. Even if the coal mining industry were an effective association, a monopoly that could raise prices would not exist.

### **Joint Products, the Rule.**

In the modern world, too, a commodity is rarely produced by itself ; it enters into a joint product, and the prices realized for the whole of the products are those we must consider in our estimate of the desirability of continuing the productive process. Raw cotton was once a single aim ; the cotton-seed was thrown into the Mississippi as a nuisance and an encumbrance. Many uses—for cattle food, for gramophone records, for margarine—are now apparent for the once discarded by-product. Here, as elsewhere, inventive ingenuity has been at work and waste has been eliminated. The producer nowadays makes his profit of what he once cast away. The soap-boiler was, not so very long ago, the producer of soap and that alone ; his products to-day, for the embellishing of beauty and for the curing of the ailments of mankind, are many. We cannot take cost of production as our guide in fixing values here, and the problem presents itself : “ How much of the cost of rearing a sheep shall be borne by the mutton, how much by the wool ? ”

And the trader it is who helps to decide. By his interpretation of the needs of the public he reaches the conclusion that mutton can be sold at so many pence a pound, and that wool, too, will be in more or less brisk demand at the London auctions. He makes his offers and the producers set about fulfilling them. The prices are such that the mutton and the wool are sold,

approximately at any rate, in the proportions in which they are produced. The trader need not trouble about what the articles he deals in cost to produce ; if he serves the public by providing what that public needs he gives sufficient indication to the producer. The producer is guided by the price, and in the long run will expand or contract his production in accordance with the trader's offers, in accordance with what he can get for his joint product.

## CHAPTER IV

### PRODUCTION

*“Be no longer a Chaos, but a World, or even Worldkin. Produce! Produce! Were it but the pitifullest infinitesimal fraction of a Product, produce it! 'Tis the utmost thou hast in thee; out with it, then. Up, Up! Whatsoever thy hand findeth to do, do it with thy whole might. Work while it is called To-day; for the Night cometh, wherein no man can work.”*

#### Production Defined.

We produce when we enable the wants of man to be satisfied, when, to use our artificial term, we bring forth utility. The miner helps the coal upon its way from the seam, where it gave no satisfaction to man, to the pit-head and the coal-hole where it does. After his work the coal is better fitted for man's use. Moving things is what man does, and his creation of wealth is due to the fact that the movement gives increased utility: matter in the wrong place is dirt, wealth in the wrong place is waste. The primeval forests that opposed the penetration of Canada, that seemed only to obstruct the farmer who would conquer the soil and make it bear abundant crops, were called “lumber.” Now that transport facilities have been made so much better, the one-time nuisance is an asset of value. In all his activities man as a wealth producer is moving things; he transforms and transports and transfers: he changes the *form* of a thing, or its *place*, or its *owner*.

However long and arduously he laboured, man could not create material; he can only give it properties, making it more answerable to man's needs. The tree in the forest already has utility; it has more when cut down by man's effort and fashioned into chairs and

tables. Nature provides materials and powers ; progress depends upon the knowledge man acquires of using these powers and materials, upon his ability thereby to create utility.

### Science a Factor in Production.

Science has put at man's disposal during the last century mighty means of production. A worker with modern machinery can do not ten times but ten thousand times what his forerunner could do, and do it better. Science and the applications of science to industry are united as the tree and its fruit. Professor Tyndall, lecturing in the United States, put the matter thus—

“ You see daily, with just elation, the creation of new forms of industry—new powers of adding to the wealth and comfort of society. Industrial England is heaving with forces tending to this end, and the pulse of industry beats still stronger in the United States. And yet, when analysed, what are industrial America and industrial England ? If you can tolerate freedom of speech on my part, I will answer this question by an illustration. Strip a strong arm and regard the knotted muscles when the hand is clenched and arm bent. Is this exhibition of energy the work of the muscle alone ? By no means ! The muscle is the channel of an influence without which it would be as powerless as a lump of plastic dough. It is the delicate unseen nerve that unlocks the power of the muscle. And without these filaments of genius, which have been shot like nerves through the body of society by the original discoverer, industrial America and industrial England would be very much in the condition of that plastic dough.”

We need consider in illustration two only of the ways in which the growth of knowledge has contributed to production ; one of far reaching effect, the other

interesting indeed, but of minor importance. "How many unrecorded ages elapsed," writes Professor Soddy, "before the energy of fuel was controlled, and in how short a space of time has it altered the whole mode of life in the world. We are spending improvidently in a year the physical means of life that would have sufficed our ancestors for a century, and the exhaustion of the available stores of energy, upon which the present era of the world relies, is already no longer a remotely distant prospect. Modern science sees in the power to effect transmutation of the elements the power to prolong the physical welfare of the community for indefinite periods. Indeed, without such discovery the phase of civilization ushered in by science must from its very nature be transitory."

The minor illustration is the obtaining of sulphur. Until the opening of the century the world's supply was mined and prepared in Sicily. The bulk of the supply now comes from Louisiana, a method of working the large deposits there having been found. These deposits, 100 feet thick, are at a depth of nearly 500 feet, and are covered by clay, quicksand, and soft rock: mining, therefore, is impracticable. A plan for extracting the sulphur was devised, however: bore holes were made to the deposit, heated steam melted the sulphur, and compressed air pumped it to the surface.

It should appear that, through the work of scientists, a higher standard of living is possible for even an increasing population. Working in harmony with our fellows, and utilizing to the full the facilities of science, we could achieve prosperity. Wealth has done much for some; it could do much for all. The pity is that man is inclined to use the resources of science so that he may more effectively destroy life and property. He then brings about misery and poverty.

## Organization as a Factor of Production.

Production in a modern complex society like ours is marked to an ever increasing extent by organization. Production is not now an individual effort. Probably, indeed, we should require to go far back in the history of man before we found men working in complete isolation. Still, the line from *needs* through *effort* to *satisfaction* was formerly much more direct. It is now very indirect, very roundabout. We co-operate with others and thereby earn incomes that we may at will transform into what we want. In one way this organization, undesigned for the most part, may be looked upon as a division of labour—each worker concentrates on one job, each firm on a small range of products, each locality on a great staple, sometimes even each country upon a typical crop or manufacture. We may hope, too—and the hope is more often than not realized—that each worker is engaged in what he can do best (with most good to mankind and least sacrifice to himself); and that the results of his efforts are co-ordinated and combined.

In the widest sense, this organization, upon the smooth working of which the well-being of nations depends, is brought about by the efforts of the trader to make a profit. We may look upon the merchant as the organizer of our economic society. He it is that initiates production, tells the manufacturer when to extend his operations, when to contract them. Interpreting market needs he offers a price to the makers; and these look to the orders received from him for guidance. The merchant—expert in markets and knowing what demand is forthcoming and what supplies are available—gives orders; the manufacturer and those with capital to invest are inspired to read conditions as he does. They exert themselves to fill his orders. Upon the wisdom

and skill of the merchant,—in which class we may place him who deals with capital, the banker providing capital for a short time, the company promoter gathering capital for longer use—we rely for a steady stream of goods. If the merchant falters and fails in the reading of market conditions all—from the man that wins the raw material from the earth to the man whose consumption is the object in view—suffer with him.

### Trade is the Organizer.

One answer to the question, “What really is trade between countries?” is that trade is a means of organizing. And we know the immense difference between a club or a political party or a business that is properly organized and one in which matters are left to arrange themselves. The coach of the Oxford crew is not content with seeing that each member does his utmost. There is no question of one member impeding another, much less of pulling against him. Yet this is all too little for the keen-eyed, strident-tongued trainer: he wants his crew to be a perfect machine so that each man is where his power counts most, so that the best can be got out of them *in combination*. Not alone weight and strength of body but qualities of mind themselves are his concern; and he is unhappy until he can devise no further improvement in the smoothly-working machine that propels the boat along.

The world is a mighty machine, too, and has capacities enabling it to produce bountifully man's necessaries, his comforts, and his luxuries. And the trader's work is so to organize the varied soils and climates and natural gifts in the world that the wants of humanity may be liberally supplied and with a minimum of effort. Once trade begins, things have a tendency to be produced where they can be produced most readily; produced

*better* in this sense that human labour is economized. At first sight trade appears to introduce an unnecessary complication into affairs. In modern times it is a very complex effort that results in a suit of clothes. The Australian sheep farmer sells to the wool merchant who transmits the fleece to the London auctions. The spinners prepare the yarn for the cloth weavers. The tailor knows nothing of the Australian farmer but has transactions only with the weaver for the supply of his cloth. And at each stage of the complex effort the work of bankers and carriers is called upon. Yet the suit is far better, and far cheaper to its wearer, than if the wool-grower had performed the whole series of operations ; for the trader has given opportunity to all co-operators to become specialists, and therefore experts.

### **The Middleman and his Work.**

We have long ago divested ourselves of the very foolish idea that trade is a contest of wits, is a perpetual struggle to get the better of our fellows. Far otherwise : it is a giving of mutual help. We hope that one bargain may be the forerunner of many bargains ; we do not wish it to mean the severing of all ties. We build up our goodwill not by pillaging our customers but by providing for their needs. The Calgary farmer wants ploughs ; the Birmingham maker can supply him ; the trader, utilizing the means that finance—"the pivot of commerce"—places at his disposal enables the one to buy, the other to sell. The maker of the agricultural machinery is assured of his money. He can, indeed, so surely count upon it that his bill upon the merchant is at once turned into credit at the bank ; and he is able to get his material, pay his men, and make his profit. The farmer may expect delivery of the ploughs without his needing to follow their passage from Birmingham to Liverpool.

from Liverpool to Halifax, from Halifax along the iron way that connects the Atlantic ports with the western wheatlands. It is antiquated folly that seeks to repress the trader upon the ground that he makes unmerited profit, unmerited because no beneficial act has been done for it, profit at the expense of producer and consumer.

A trader, true to his function, helps both producer and consumer ; and he becomes a burden upon the community only in the rare instances when he takes unfair advantage of superior knowledge. With the spread of education such instances should become rarer still. We may anticipate, for instance, that the state of things that some time ago prevailed in the Montrose and Aberdeen fisheries will not recur.<sup>1</sup> Of the price the customer paid to the fishmonger, 7 per cent only went to the fishermen, 7 per cent went in transport charges,

<sup>1</sup> The recently published Report on Market Prices of Fruit and Vegetables suggests that we have room enough yet to perfect our buying. Read this quotation, for instance, from *The Times* of 23rd June, 1923 : "The industry of raising fruit and vegetables is an industry on which very large numbers of the inhabitants of this country depend for their living, to say nothing of the value of their products to those who consume them.

" Yet the fact remains that from the moment when they are ready to go to market nearly all the conditions conduce to their being sold at a loss, or at all events for a very slender profit. The railway rates, by far the heaviest individual charge borne by the produce before it reaches the wholesale market, sometimes absorb the whole, and more than the whole, of the selling price. After the railways, we have the middleman, or rather the middlemen—for occasionally there are as many as six of these intermediaries interposed between the grower and the consumer. Then comes the market—in the case of London, Covent Garden Market. In no other market in the country is the accommodation so deficient and the congestion so acute. It is owned by a private company which has not set itself to make the necessary alterations, and the magnitude and incidence of the existing market charges are the subject of general complaint. Even their legality is questioned. It is imperative, say the Committee, not only in the national interests, but in the ultimate interest of railway revenue, that the railway companies should devise means

leaving the remaining 86 per cent to be absorbed by the "middlemen." And this was done long before the word "profiteering" was ever invented. Yet apparently inordinate profits may be justified by the excessive risks the merchants need to make in order to place their goods within the reach of consumers, risks of losing the money they have laid out, risks to life itself. Probably the caravan traders carrying some faint glimmer of the light of civilization into darkest Africa make hundreds per cent profit—and they earn it.

### Trade a Laudable Activity.

We must not acquiesce in the notion that trade is unworthy of our best efforts. If we are performing some

of making further reductions; it is imperative that steps should be taken to alter the existing conditions in Covent Garden Market.

"The third party to profit by the work of the actual producer is the ultimate retailer, who does not, the committee find, taking the trade as a whole, appear to be making excessive profits. In that case it puts a severe strain on the imagination to calculate the amount which falls into the hand of the middleman; for the stores and high-class shops in the so-called West-end of London were selling parsnips in January at a gross profit of no less than 331 per cent on wholesale prices, and dessert apples at a profit of 344 per cent. The retailers in middle-class suburban shops and the owners of street barrows did not open their mouths quite so wide. They, modest souls, were content for the same articles with a beggarly increase of 187 and 196 per cent. What, then, is to be done if the horticultural industry is not, in many districts, to perish? Producers, the committee suggest, and we entirely agree with them, must realize that marketing is the other half of production. They must make it their business to increase their knowledge of market conditions and requirements, and organize co-operative trading on a sound and businesslike footing. That, indeed, seems to be the only remedy, beyond the reduction of railway rates and the reform of Covent Garden. There is, for instance, quoted the actual experience of a potato grower in the Isle of Ely who sold one hundred bags of Majestic potatoes for £11 5s. From this had to be deducted £5 4s. 1d. for carriage and cartage and £3 2s. 6d. for agents' commission, leaving a balance for the grower of only £2 18s. 5d."

necessary function, small though it be, in the machinery of trade, we have a high calling. We are of those who have been, and are, the world's supreme civilizing force. The trading communities of Venice, once "the safeguard of the West," of Genoa, and later of the Hanse Towns, made prevalent against the tyranny and darkness of the Middle Ages the rights of humanity. In our own country the traders of the towns have ever been in the forefront of movements for greater rights and liberties of the people. Strange it is that, as the London University in its plea for *higher commercial education*, points out, "Too often education, in the person of the public-school-university man, has regarded the Church, the Law, the Army and Medicine as the only possible careers, and has looked upon Commerce as something remote and unworthy of consideration, with slight reservations in favour of banking, insurance, and the selling of motor-cars." But this attitude is rapidly becoming obsolete ; and well for us that it is. For we have before us a time of strenuous competition ; and we shall want more, to hold our own, than a self-satisfied complacency over past reputation. A British merchant has, indeed, some cause for pride in that a stroke of his pen is obeyed from one end of the world to the other. His reputation for fair dealing is enough ; he has signed and that suffices. But, we are told, "Perseverence, dear my lord, keeps honour bright" ; and a reputation for providing reliable goods at reasonable rates is no exception to the rule. A good commercial reputation needs to be maintained as well as created.

### Defective Organization.

The organization afforded by trade is not perfect, could hardly be, perhaps, however society were constituted. For the merchant and the maker are not

alone, and miscalculation may occur. The market that justifies a little extension of manufacturing industry may not justify much extension. Everyone wants a wireless set. A swarm of merchants lavish orders ; in order to share in the gains from the newly-found market a swarm of makers begin, or expand, or change from a former job. There is, in fact, briskness in the industry and a temporary, perhaps illusive, prosperity. In the end, however, it is seen that production has outstripped the needs of the market. There has been over-production ; the people able and willing to pay remunerative prices for the wireless sets are too few.

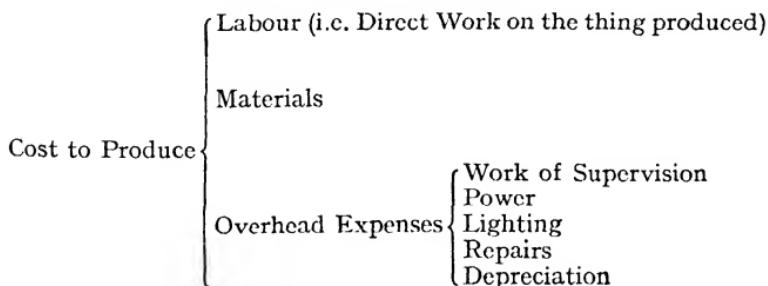
This, we should note, is the meaning we should attach to this ambiguous term "over-production." It does not mean that more sets have been made than would gladly be used by people ; we are very likely safe in saying that over-production in this sense is not possible. There cannot be production of leather or cloth in excess of the wants of a society until all feet are shod, all backs warmly clad : "Plugson was a Captain of Industry. Those thousand men that span and toiled round him, they were a regiment whom he had enlisted man by man ; to make war on a very genuine enemy, Bareness of back and disobedient Cotton-fibre which will not, unless forced to it, consent to cover bare backs. He enlisted his thousand men ; said to them, 'Come, brothers, let us have a dash at Cotton !' They follow with cheerful shout ; they gain such a victory over cotton as the Earth has to admire and clap hands at. But, alas ! Why Plugson, even thy own host is all in mutiny : Cotton is conquered ; but the bare backs are worse covered than ever !"

There can, however, be over-production in excess of what can be sold at remunerative prices. A "glut" of mackerel does not imply that no one wanting fish for

breakfast need go without it ; it does imply that the prices to be obtained for the big catch are so low that it seems hardly worth while to go fishing again.

### The Employer as Organizer.

The trader exercises control over and gives direction to industry. He does this indirectly, and through his wish to make profit. The employer—the entrepreneur as we sometimes delight to call him—organizes in a more obvious manner. At Port Sunlight or Bournville the efforts of many thousands, each constantly repeating one tiny process, are by conscious direction fitted together for a definite end. The employer gathers into one spot the materials of an industry, builds the workshop and installs the machinery, and engages the workers. He combines these agents or factors of production—the materials, the tools, the men—so that they constantly do more and better. He keeps an expert eye upon the costs he has to meet in the making of his article and in the placing of it at the disposal of the public. He knows what goes to wages, what to material, what to charges that remain pretty well constant whether output is great or small. He may arrange thus his—



He may subdivide each division to any extent ; and, though he may not expect absolute accuracy, the analysis helps him. So, too, in the function, important

to his workers as to himself, of selling, of finding a market, he will note the main lines of expense—

Selling Expenses { Office  
Salesmen  
Advertising  
Travellers  
Other Expenses (Samples and Concessions for instance)

Consistent records make the more costly items stand out prominent, clamorous for attention. He asks, "Is this outlay on this factor justified by what I get from it?" "Might I not substitute a more effective agent at the same cost or an equally effective one at a smaller cost?" "Would oil be a better source of power than coal, would advertising be better than personal agents for selling?"

The employer sells the product to the purchasing public, and pays to the many co-operators their shares, shares assessed—we may be allowed to assume for a moment—upon some principle of rough justice. The surplus he takes to himself as his *wages of organization* or, the usual term, his *profits*. These profits are large at times certainly; but skilful organization is a necessary service to a community and is worth paying for.

### Factors of Production.

Nature provides materials and powers, and man creates wealth by skilful use of them. Land is the comprehensive term for these gifts of nature, gifts of no less importance now than in the days when man's effort consisted simply of taking what nature, unaided, provided for him. Natural conditions are yet of the first importance, even in a country like England where trade and manufacture predominate. Labour is the human factor—the flesh and blood factor—in production.

Modern writers, wishing to bring out the importance of planning, of organizing, in these days of large scale production, are fond of looking upon the labour of organization as a separate factor in production. They have, too, sought to emphasize the worth to a community of men with foresight, with ability to see new openings for the employment of labour and capital and with willingness to encounter risks in seizing these new openings. The people that take up shares in new and doubtful undertakings, the capitalist that links his fortune to some scheme promising well—but risk is inherent in all business as in all life—are showing enterprise. The personal element in production is analysed, therefore, into labour (in the narrow sense), organization, and enterprise.

### **“Labour” a Factor.**

Labour, we should note, is one of the troublesome unscientific terms that has no single definite meaning. When used in such phrases as “Labour against Capital,” labour should be interpreted as workers rather than work. When, however, we speak of labour as a factor of production we are to look upon it as an effort of mind or muscle applied for another reason than pleasure in the effort itself. The effort we call labour can, indeed, at times be hardly distinguished from the similar effort not included in the term. Some do for pleasure what others do for a living: on the football field the Corinthians can be told from their opponents only by the colour of their shirts. The climber of Mount Blanc exerts himself far more strenuously than the stone-breaker on the road; and his guide doubtless calls the climbing “work,” even though he may take pleasure in it. Labour is a correlative of wages; it implies an effort for gain, and usually—happily not always and not to

any great extent where wisdom has been exercised in choice of occupation—implies also a sacrifice of time and of inclination.

### **Capital as a Factor.**

Capital is the result of past labour, saved in order to help present labour and make it more effective.

“Stay a little that we may make an end the sooner,” is the sage advice at times ; the longer way round may be the shorter way home. Capital, indirectly meeting our wants, supplies an illustration. Just as we plough and sow in order to have less trouble in getting food, so we make costly apparatus—build factories, plan machines, cut through mountains—to save ourselves trouble in other ways. By effort that in itself adds nothing to the stock of enjoyable things we make easier and simpler the effort that does so add : we give a little in order to have the more, throw a sprat to catch a mackerel. We do more than we need do so as to have the less to do in the end. The fisherman in the fable, you remember, would not listen to the prayer for release of the little carp he had hooked ; in spite of its promise to return to the net when grown great, he put it into his basket for immediate consumption. The attitude appears childish to us enamoured of our large scale production based on abundant capital. We have so cultivated the telescopic vision that we prefer the big fish of the future ; we willingly throw the little that we may later get the big fish.

We owe the goods we now enjoy only in part to the work of the week or the year, only in part to the efforts of those living alongside us. The men who built our railways or sunk our coal mines, who helped to produce any of the lasting means of production, are still contributing to our wants ; we can imagine the inventor of

the plough toiling even yet by the side of the ploughman who cuts the furrow. His ideas even yet help mankind, as do the ideas of inventors and discoverers from the earliest days : “ We inherit not life only, but all the garniture of life ; and work, and speak, and even think and feel, as our Fathers and primeval Grandfathers from the beginning have given it us. . . . Generations are as the Days of toilsome Mankind ; Death and Birth are the vesper and the matin bells that summon Mankind to sleep and to rise refreshed for new advancement.” Our dependence upon the work and the thought of time past is, in truth, great enough to be disquieting.

The modern Englishman without command of capital, his own or another’s, is the most helpless of creatures ; though with it he is the most powerful : “ Feeblest of bipeds ! Three quintals are a crushing load for him ; the steer of the meadow tosses him aloft like a waste rag. Nevertheless he can use tools, can devise tools : With these the granite mountain melts into light dust before him ; he kneads glowing iron, as if it were soft paste ; seas are his smooth highway, winds and fire his unwearying steeds.”

### **Differences in the Wealth of Nations.**

Organization, we may say, brings together other co-operating factors, enterprise, labour, land, and capital, and guides them in the production of wealth.

We are to attribute the striking differences in the wealth of nations, in time and in place, to the differences in these factors of production and the manner of their co-operation. Land—the materials and powers that nature places at man’s service ; labour—the work of man in manipulating these gifts of nature ; and capital—the instruments that man has and saved to help him in his task of subduing nature : the differences among

these are infinite. Man is not uniform ; mud has as many varieties as flowers ; machinery ranges from the simplest of spinning-wheels to the highly compressed mechanism, of many hundred horse-power, that impels the aeroplane. And skill in combining the factors varies with all the varieties of man's mind, his experience, and his knowledge.

One region has bountiful gifts of nature, fertile soil, abundance of minerals, convenient situation, sun and wind and rain as we would have them ; it is a niggardly land that has endowed a second region. Yet the second region, through the effective working of its people and because it is well supplied with the means of abridging toil—with capital that is, may well be the better wealth-producing machine. Before European races had made the United States, its wonderful resources were there. Yet the area, the factories of which now produce as much of the factories of the the whole world outside, was a sparsely peopled, poor region, the mere hunting grounds of scattered Indian bands. Until men bringing with them European civilization and knowledge, came to turn the resources to good account, North America was like a magnificent ship with a poor crew and no engines. The flesh-and-blood factor was not capable of using the resources at its disposal. A region like Macedonia, on the other hand, amply supplied with the means of wealth, a seat of ancient power, is a wilderness because capital could not accumulate : excessive taxation, loosening the springs of industry, has turned a garden into a wilderness. Capital, that is the iron-and-brick factor, is wanting. Again, however many efficient workers equipped with however much helpful capital we took to the Sahara, that region would still remain desert, still unproductive of the simplest necessities. The mud-and-manure factor is deficient.

## Summary of the Factors.

We need not, when all are called for in the co-operation, trouble about giving an order of precedence to the factors of production. Man it is—the labour factor—that, seeking to satisfy his wants, takes the initiative: he works with hands and mind, he organizes, he takes risks wisely. “Land” is the wide embracing term that includes all the materials and the powers used by man. Capital is the tool without which man would have nothing but his nails and teeth wherewith to provide himself; it is an instrument produced by past labour and saved to help present labour. Without doing great violence to language we may say that once land, nature, furnished all and by itself. Man merely accepted its gifts as the squirrel accepts nuts and the blackbird accepts worms. Man was *natus consumere fruges*, born to consume and to do little else; all that he did as producer was to appropriate to his use the good things of the earth. The rearing and protection of goats and sheep and cattle, very much more the tilling of the soil, enlarged the part of man in the getting of wealth. And along with this enlarging of the part of man—along with his activity in planning and foreseeing and venturing—capital has become of constantly greater import so that now the inanimate factor seems dominant: we live in an Iron Age. Industry first began in close union with the growing of crops; the weaver had a second string to his bow: he owned his own loom, worked it in the intervals of his work on the soil, was neither its slave nor dependent upon it. Industry in the narrow sense is to-day almost divorced from the soil. There was an end to these mixed labours when great factories were made necessary to house the mighty machines worked by steam power. Workers were gathered together, the country was denuded of all that was not of the farm,

With the highly specialized machinery came minute division of labour, and as a result a sharp separation between employer and employed. Unluckily, there was, too, and is now, such a mingling of the man and the machine that the worker became no longer master of a tool he himself put into movement but the servant and mere satellite of a machine. There was no longer freedom to work or not to work, to work with intensity or in a leisurely way. Steam and the machine dictated ; and men and women had to adjust their work to the engine and to adapt their movements to the speed of the spindle or the shuttle.

Nor may we draw any clear lines to separate the factors. Man is himself part of nature. Land is, through the care exerted upon it, in large manner capital : it is a tool that has been shaped and fashioned by man. And man—civilized man with all his inherited and acquired capacities—is capital, too.

## CHAPTER V

### ABUNDANT PRODUCTION

*“The world has been rushing on with such fiery animation to get work and ever more work done, it has had no time to think of dividing the wages ; and has merely left them to be scrambled for by the Law of the Stronger, law of Supply-and-Demand, law of Laissez-faire, and other idle Laws and Un-laws—saying, in its dire haste to get the work done, ‘That is well enough !’”*

#### **Consumption Dependent on Production.**

WE are not, indeed, justified in thinking that once things are made available for men they will be fairly shared among them. The amount of good things at the disposal of a people is a matter of importance. But the manner in which the nation's income is divided forms a factor in the welfare of the nation of at least equal importance with the amount of that income. You delight little in the income from which directly and indirectly the State or another exacts five, ten, fifteen shillings in the pound ; the Sheffield cutler gets small consolation from the knowledge that his help, on a moderate computation, has added to the yearly product of knives some thousands when he can get to take home to his wife the price of some hundreds only.

Still, one condition of a nation's ability to enjoy an abundance of good things is that the good things are in existence. At the least, we can say that to increase production is to make possible our chance of getting more. Let the flow of wealth attain volume enough and all may drink of it without stint. Some thought

over the conditions making for abundant production is not, therefore, misplaced.

### **Efficient Production.**

That abundant production depends upon the efficiency of the producing agents and their harmonious working together needs no proof. Give the worker more knowledge, more skill in availing himself of the powers nature provides, and we make his effort more effective. Hand over the automatic tasks of life to unwearying and unthinking machinery and we set men free for higher work, maybe for one of those steps forward on which human progress, material as well as mental, hangs. For the frictions—the disputes and bickerings that waste time and energy—in the mechanism of production, substitute smooth working, and we travel towards not only abundant wealth but to a fair distribution of it.

### **Increasing the Factors of Production.**

The factors of production are, we note, inextricably mingled, and we can look at each separately only in a highly abstract manner. When, for instance, the scientist tells us how to make two blades of grass grow where one grew before, he is showing us how to increase land—which is the comprehensive term for the materials and powers nature puts at man's disposal. He is putting more of those powers at man's service. Irrigation schemes whereby deserts become the homes of thousands of happy families ; the redemption of half-sunk land from the sea whereby our butter and cheese cost less ; the discovery of new energy—that of radium, for example, the element that for thousands of years will in decomposing emit as much heat in two days as its own weight of fuel in burning : these are all very real ways of increasing land. These ways depend, however, upon

the human factor, upon the growth of knowledge. And there are not wanting thinkers who look upon this growth as destined to find more striking ways of using nature—

“ For untold years men froze on the site of coal mines, and starved within the sound of the Niagara that is now at work producing food. Every single factor in wealth production existed prior to the phenomenal expansion of the last century except one, the knowledge how to control and utilize for life the capital store of sunlight preserved in fuel. It is precisely the same to-day. We are as far from utilizing the stores of energy, which we know to exist all round us in unlimited abundance, as savage men, who had not learned how to kindle a fire, were from utilizing the power which has made our own age great. The whole matter could not compete in public interest with a ball game or a prize-fight, and civilization depends for its future on the long vacations when the scientific men in the Universities get the opportunity for a few weeks' uninterrupted and continuous research.”—(*Professor Soddy in a lecture to students of economics.*)

How to extend land may be known ; the human factor may be so far effective. But another human factor, enterprise, may be a-wanting to make use of the knowledge. “ Too crowded ! ” exclaims the sage, inveighing against those that counselled the limiting of population lest the crop-bearing lands should fail to feed hungry mouths. “ Meanwhile, what portion of this globe have ye actually tilled and delved, till it will grow no more ? . . . Where are now the Hengsts and Alarics of our still-growing, still expanding Europe ; who, when their home is grown too narrow, will enlist, and like Fire-pillars, guide onwards those superfluous masses of indomitable living Valour ; equipped, but not now with

the battle-axe and war-chariot, but with the steam-engine and ploughshare ? Where are they ?—Preserving their Game ! ”

### Growth of Capital and Labour.

The growth of capital, too, depends upon the human factor. Such growth—without which the large scale production that alone can cope with our needs is impossible—comes from two coincident causes. There must be an ability to save, an excess of production over necessary consumption. When a man must spend his last penny in bread for his children, it is a foolish insult to preach providence to him. Some surplus there must be, something not needed for the wants of the hour. There must be also the willingness to save : those who, being particularly favoured in the distribution of the nation’s income, obtain more than they need consume, must have an incentive not to squander the excess. The prospect of *interest*, the feeling that if they save they will be allowed to enjoy, together with a sense of security—the knowledge that the State will not filch their savings nor permit another to do so—conduces to the willingness to save. Capital will increase when the ability to save is linked with an incentive to save.

Growth in the supply of labour is not solely, or indeed chiefly, dependent upon the growth of population. Power to do work is what matters : a few people well trained and well equipped can do more than many people who—through lack of skill or want of will—dissipate and waste their efforts. “ Number in armies,” wrote Bacon, “ importeth not much where the people is of weak courage ; for it never troubles a wolf how many the sheep be.” In the war on poverty and misery, also, we do better to rely on few, well-trained and intelligent, than on many ill-trained and undeveloped. The

skilful expensive worker is usually the cheaper worker. Education—real education—and efficiency go together.

### **Education and Efficiency.**

By education we mean the systematic development of body and mind, of the body by suitable physical training, of the mind by suitable mental exercises. What is suitable is, as the lawyer says, a matter of fact dependent upon circumstances. By efficiency we mean the power to achieve much with little effort ; its antithesis is muddle that wastes time—time which is the staff of life—and ill-directed work that dissipates energy.

The close connection between education and efficiency is apparently not yet fully appreciated. The grudging assent to expenditure on education seems to imply that the teaching of shrewd and careful observers has had but slight effect. Long before the Act of 1870 sent the schoolmaster abroad in our land and gave some opportunity to the children of the nation, the greatest of our writers on social problems had declared : “ The third element which determines the productiveness of the labour of the community is the skill and knowledge therein existing, whether it be the skill and knowledge of the labourers themselves, or of those who direct their labour. No illustration is requisite to show how the efficacy of industry is promoted by the manual dexterity of those who perform mere routine processes ; by the intelligence of those engaged in operations in which the mind has a considerable part, and by the amount of knowledge of natural powers and of the properties of objects which is turned to the purposes of industry.

“ The number of persons fitted to direct and superintend any industrial enterprise, or even to execute any process which cannot be reduced almost to an affair of memory and routine, is always far short of the demand.

The deficiency of practical good sense which renders the majority of the labouring class such bad calculators—which makes, for instance, their domestic economy so improvident, lax, and irregular—must disqualify them for any but a low grade of intelligent labour, and render their industry far less productive than with equal energy it otherwise would be. The importance, even in this limited aspect of popular education, is well worthy of the attention of politicians, especially in England; since competent observers, accustomed to employ labourers of various nations, testify that in the workmen of other countries they often find great intelligence wholly apart from instruction, but that if an English labourer is anything but a hewer of wood and a drawer of water he is indebted to education (though often of self-education) for it.” The facts are different to-day only in this that the matter is now more urgent. When we held a position of vantage, when a number of curious chances had contributed to give us a world monopoly of industry and trade, we could—though even then it was foolish to do so—look upon education as a luxury. As a people we could dispense with it. Now that we are but one of a number of competing peoples, some with natural resources greater and better than ours, the cultivation of the human agent is no luxury but a primary necessity. Well for us that we have among us many able to speak with authority, who know that education is the greatest factor in wealth production. Bring about conditions so that you make *la carrière ouverte aux talents*—so that you give the tools to him that can handle them—and you will ensure abundant production.

### **Education and Production.**

Education, we are to note, is not summed up in the power to read and write. The handicraftsman of the

Middle Ages, whose work we admire in our colleges and castles and cathedrals—those glorious works of fine intelligence—were for the most part illiterate. Yet they were educated in hand and eye ; they had a sense of beauty and a love for excellent workmanship ; they could express their thoughts and aspirations through cunning work in wood and stone and iron ; and they could find delight in exerting their acquired skill.

In our days illiteracy is no obstacle to the deftest use of tools. Even so, the extended use of labour-saving inventions—intended for a world-wide market and made with standardized parts—is possible only because the users are able to read instructions. It needs skill and intelligence to exact the best out of the mechanical devices that inventive genius has placed at man's services ; and the more widely diffused among the populace the greater will be the production and the more equal the distribution of wealth. In a South African gold mine the black man can do well enough the work with pick and shovel ; the white man, with his educated mind, has the monopoly of the delicate operations. He it is that guides and controls the elaborate machinery.

In a world comparatively so poor, men, who have refused to let nature limit their numbers, must plan and scheme in order to wrest from nature what she does not afford to her other creatures. They are keenly anxious that industry should be effective, should produce bountifully for the multiplied needs of civilized existence. They know that this effectiveness depends to some extent on material equipment, on the machinery available for work ; but they know it depends to a far greater extent on immaterial equipment, upon the accumulated moral and mental qualities of the worker. They should, therefore, be keenly desirous that such

education as makes for the accumulation of the immaterial equipment shall flourish.

### Other Factors in Man's Efficiency.

To be illiterate, as one suggests, is not incompatible with skilled workmanship. Yet, we quite rightly attach weighty importance to general education, particularly to the power of grasping another's thoughts by reading, and of expressing one's own by writing. Give a learner power to read and you will have given him the key of a new world. Give him incentive to use the key—awaken his mental hunger—and he will continue his education in the only real way, by his own exertions, that is. And the contact he has with noble minds will train his character itself, a training that is of the essence of education.

It has become the fashion to decry schools that pride themselves on the training of character. Even from the industrial point of view such training is not negligible. We do well to consider this deliberate conclusion of Mr. Lecky, a wise observer of men and matters : " Success in life depends more on character than on either intellect or fortune. Temperance, industry, integrity, frugality, self-reliance, and self-restraint are the means by which the great masses of men rise from penury to comfort, and it is the nations in which these qualities are most diffused that in the long run are the most prosperous. Chance and circumstance may do much. A happy climate, a fortunate annexation, a favourable vicissitude in the course of commerce, may vastly influence the prosperity of nations ; anarchy, agitation, unjust laws, and fraudulent enterprise may offer many opportunities of individual or even of class gains ; but ultimately it will be found that the nations in which the solid industrial virtues are most diffused and most respected pass all others in the race."

## Division of Labour.

It is the growth of knowledge and of skill in applying knowledge—education, in short—that enables men to apply the principle of division of labour, and to obtain its consequent multiplying of production. Because men are able to rely upon one another and to work out plans concerted beforehand, each may become a specialist and therefore expert. When each man occupies himself in what he can do best, production is multiplied manifold, and in our times this specialization has been pushed to amazing lengths. The census returns of occupations need a dictionary for interpretation.

Localities and even countries specialize. And the same effort thereby results in more abundant satisfaction. Two greyhounds hunting together will, we are told, catch more hares than four hunting separately. The co-operation is here unconscious, unintended ; yet is none the less real. Much of man's division of labour is thus undesigned, too, though much results from deliberate planning. We have, on the one hand, the obvious, carefully planned division of labour that takes place in a single industrial group, in a Tyne shipbuilding yard or a Bradford weaving factory. There the co-operation of the workers in the group is deliberate and controlled. We have, too, what is more striking, the combined productive effort of many groups. There is no deliberate co-operation, no organizer or director : the weaver does not bargain with the shoemaker, nor agree with him that each shall stick to his own job. Though it does not result from a definite plan, though it comes about in fact from the action of the merchant, there is yet a real division of labour.

When division of labour is practised, each worker can be put to the task for what his mind and muscle, his inclinations and training, best fit him. Even, indeed,

if the occupation is, as often it must be, no matter of choice but of accident or of necessity, he becomes skilful in it ; and, skill being present, work becomes not easier only but also less irksome. The cobbler, through sticking to his last, gets in the end to love it. At all events, distasteful though it is at first, his job grows less irksome.

Division of labour brings about large scale production ; and in this only can effective use be made of auxiliary capital. The owner of a small factory may know where he could get mechanism that would abridge a single process ; the small grocer may know of the existence of a bacon-slicing machine that would in the twinkling of an eye add a penny a pound to the price of his bacon ; the head of a small office knows all about cash registers and counting machines. It would, however, be ill-advised expense to get the mechanism in the £90 slicing machine, or the £80 cash register. The large establishment alone can make adequate use of them. We may, perhaps, too, put to the credit of large-scale production, based on division of labour, that it enables more accurate calculations to be made of market needs and a better provision, therefore, to meet those needs. One argument put forward on behalf of trusts, is that, under their guidance, there should be no distressing alternations of glut and scarcity.

At any rate, except where the personal element is a factor, the big producer tends to supplant the small producer. The Bond Street dressmaker, studying their whims and caprices, keeps her clients ; the milliner with her exclusive designs cannot but work on a fairly small scale. A Lyons caterer, however, or a General Omnibus Company, makes it difficult for smaller competitors. For there are many economies open to the large-scale producer, economies in staff, in space, in buying and selling

expenses. The large scale producer can employ experts and give them work enough ; he can employ expensive machinery in the one profitable way—at full pressure. And he can advertise in the one effective way—on a large scale.

The small man, the “ sole trader ” whose fortune is linked up with the success or failure of his business, may be expected to take a keener interest in it than the paid employee of a big company. He will be zealous enough ; his mind will be incessantly occupied with his undertaking. But he cannot be an expert in all branches of the business ; and the expert giving his mind for a short while only to the problem is likely to achieve better results than the man of many parts giving his mind for a long while. Besides there must, in a small undertaking, be loss of power through an unwise union of functions. The principal does much of the routine and detailed work whereas his abilities, presumably, fit him for direction. He cannot install labour-saving devices ; for these can be profitably worked only in big businesses. He cannot grade his workers and make them all specialists in their several jobs. He is almost debarred from experiment and enterprise ; for he cannot risk much : he is the servant of trade conditions instead of being in a sense their master.

### **Conditions Bringing Division of Labour.**

All this economy is possible, however, only when there is a way of selling the multiplied products due to division of labour and large scale production. Unless they could be readily sold it would be absurd to turn out motor-cars by the hundred, boots by the thousand, soap tablets by the million. In other words, division of labour is limited by the extent of the market. South-east Lancashire has become a highly specialized machine for

making cotton goods. Its workers are skilled, by inherited aptitudes and by intensive training, in spinning and weaving ; the latest, most expensive machinery finds ample work ; the means of transport are all adapted to the carriage of cotton and cotton goods. But this comes about because there is a well-nigh insatiable demand throughout the world for cheap cotton goods. If the markets of India, Egypt, the Balkans, and South America were cut off there would be no concentration of this cotton industry ; the advantages of large scale production would disappear, and men would obtain their calicoes at greater expense of effort.

### Possible Drawbacks.

There may be drawbacks both to a man's specializing and to a district's devoting itself to a single product. A man engaged ever in one tiny process of a complicated undertaking may be affected by the monotony of his task : " His nature is subdued to what it works in, like the dyer's hand ; " and he becomes as little capable of higher thoughts as the machine he manipulates. There seems no need for this, no cause for the wail : " It is not, truly speaking, the labour that is divided but the men—divided into more segments of men—broken into small fragments and crumbs of life ; so that all the little piece of intelligence that is left in a man is not enough to make a pin or a nail, but exhausts itself in making the point of a pin or the head of a nail."

The mechanic's task is not more monotonous than the hoeing of row after row of turnips, or the ploughing of one lonely furrow after another. And he has lightenings of his load—more leisure and greater variety of employment for that leisure, more converse with his fellows, more chance to combine with them in social and political

activities, a greater income in his share of the multiplied products than the farm worker has. The crowding into towns, an indirect but no longer, in these days of good train service, a necessary result of large scale production, need be no drawback: the sanitary arrangements possible for a large town, its good water supply, its well-equipped schools, make it in many ways a place more desirable to live in than a village in the country. Those that, having had a delightful picnic on a summer day, judge otherwise have probably not spent a rigorous winter—when wireless was not—in an old fashioned house in an old fashioned street.

A more serious drawback to minute division of labour, from the worker's point of view, is that the more specialized a man becomes in industry, the more he is threatened by inventive ingenuity. A machine, a new process, a happening abroad or at home over which he has no control at all, may turn him from being one of the indispensables into one of the most easily dispensable. He wakes up one morning and finds himself superseded. Not efficiency itself can keep up the demand for his service: the cleverest and most industrious of the hand-loom weavers failed to make a reasonable "living" against the power looms. It is small consolation to the superseded specialist that "in the long run" things will right themselves. For he wishes to live and to feed his family here and now; and while the grass grows, while adjustments are being made and his services absorbed elsewhere, the horse starves.

Nor need we greatly lament that large scale production of necessity brings about a loss of personal relation between employer and employed. Independence is worth cultivating; and the relation between the two is not—as once it was, for ill as well as good—one of master and servant, but of co-partners in industry.

However this may be, we have many to provide with all the requirements of a full life. We cannot do this unless we produce in mass ; and we are, therefore, pledged to large-scale production. We should accordingly be prepared, using its advantages as we do, to make provisions to cope with its drawbacks.

## CHAPTER VI

### POPULATION AND IMPROVEMENT

*“There must be something wrong. A full-formed horse will, in any market, bring from twenty to two hundred sovereigns : such is his worth to the world. A full-formed man is not only worth nothing to the world, but the world could afford him a round sum would he simply engage to go and hang himself. Nevertheless, which of the two was the more cunningly-devised article, even as an Engine ? Good Heavens ! A white European man, standing on his two Legs, with his two five-fingered Hands at his shackle-bones, and miraculous Head on his shoulders, is worth, I should say, from fifty to a hundred horses !”*

#### **Production for Population.**

SINCE economics studies how the needs of men are met, this question of population is the fundamental one. There are many hungry mouths to be fed and many bare backs to be clad. And we are in this England of the twentieth century not satisfied with the bare necessities of life : the saying is out of fashion, “ Man wants but little here below, nor wants that little long.” We want much for many years ; and the materials supplied by nature must be coaxed from her and compelled to assume forms enabling them to satisfy our multiplied wants. If these things were not so, there would be no economic problem at all : production takes place simply because people wish to consume. Abundant production is called for because more people seek to consume more products. Consumption is the one end of production ; and the interests of the producer are to be attended to only so far as they conduce—as usually they do—to the interests of the consumer.

How to provide for the wants of a growing people has always been to the economist and to the wise statesman—who is the economist in practice—a question clamouring for answer. Modern discussions take as their point of departure the elaborate "Essay on Population" that Malthus wrote when, largely as the result of lax and foolish administration of the Poor Law, the workers of England were in as debased a situation as may be conceived. The dread of a population gaining upon improvement is due in some measure to the facts at the time of his writing.

It was then, Waterloo not having marked the close of a dreary period of war, actually becoming more difficult for men to maintain their standard of comfort. "Standard of wretchedness," Malthus called it, taking note of the deplorable conditions of his day. For the mass of workers, those who earned only enough to keep themselves and their families alive—for the worker at subsistence level of whom we could say *il ne gagne que sa vie*—it was true to say that population was gaining upon food supplies. Each new mouth to be fed meant no doubt a new pair of hands to wrest food from nature; but then, the mouth operated at once, the arms not for many years. Besides, unless changes for the better take place, nature gives supplies on ever more and more onerous terms. We may double the weight of potatoes grown on our plot; but it will be by more than double the amount of work we do upon it—unless our neighbour shows us a better method than the haphazard one we have used, or unless we buy some new tools or powerful manure; and we cannot do these things indefinitely. Double our quantities we may; to treble or quadruple them may well surpass our efforts. When it concerns crops, of turnips in the farmer's fields or of tomatoes in our hot-house, production does not keep pace with effort.

## Poverty and Population.

The text of Malthus's teaching was that the food available, not the number of births, determines population. The reason why rabbits do not overrun the earth is not, as Australia knows, want of fecundity ; it is that they cannot find enough to subsist on and may become subsistence. Man, like them, may not find enough to eat ; and though he is not normally subject to being eaten, yet a devastating war is a quite effective substitute for this inconvenience. The rate of increase of people is inclined to be greater than the rate of increase of food : population is always close on the heels of subsistence. His illustration from arithmetic need not be taken too seriously : he asserted that, whereas the crops increased as 1, 2, 3, 4, and so on, the number of people to eat those crops increased as 1, 2, 4, 8, and so on. But population is not bound to win the race with improvement.

Among men, as among the rest of creatures, there would seem to be an unceasing struggle for a place in the sun and for plenty of food ; and the men, and the nations, survive that can fit themselves to their surroundings. A loaf entails ever more and more expence of labour and capital. In time, therefore, he declared, many will be unable to get enough food ; for we cannot count upon a succession of improvements. Science has worked marvels of late ; but we should be foolish gamblers if we reckoned that the stream of improvements would never slacken. Poverty and starvation are unavoidable unless the race as a whole adopts some means of retarding an increase in number, as France seemingly has done. Unless births are prevented, by the postponement of marriage for instance, misery will prevail and cause many deaths. "It is not," Malthus asserted, "the duty of a man simply to propagate his

species, but to propagate virtue and happiness ; and if he has not a tolerably fair prospect of doing this, he is by no means called upon to have descendants." When we note the number of people in England who, under present conditions, cannot live in comfort but who yet marry and have children, we cannot deny that what he would have is desirable. Early marriages are often improvident marriages ; sometimes, too, they are immature marriages entailing physical evils to the offspring. A poor quarter of the town will swarm with children having much less chance of surviving to maturity than children in the better quarters. And those surviving are heavily handicapped in the race of life. It was the avoidable suffering in the poor quarters that Malthus wished to remove. But he, like other devisers of Utopias, fails to take account of human propensities<sup>1</sup>.

<sup>1</sup>" How often we read in Malthusian benefactors of the species : ' The working people have their condition in their own hands ; let them diminish the supply of labourers, and of course the demand and the remuneration will increase ! ' Yes, let *them* diminish the supply : but who are they ? They are 24,000,000 of human individuals, scattered over 118,000 square miles of space and more ; weaving, delving, hammering, joinering ; each unknown to his neighbours ; each distinct within his own skin. *They* are not a kind of character that can take a resolution and act on it very readily. Smart Sally in our alley proves all too fascinating to brisk Tom in yours : can Tom be called on to make pause, and calculate the demand for labour in the British Empire first ? Nay, if Tom did renounce his highest blessedness of life, and struggle and conquer like a Saint Francis of Assisi, what would it profit him or us ? Seven millions of the finest peasantry do not renounce, but proceed all the more briskly : and with blue-visaged Hibernians instead of fair Saxon Tomsons and Sallysons, the latter end of that country is worse than the beginning. O wonderful Malthusian prophets ! Millenniums are undoubtedly coming, must come one way or the other : but will it be, think you, by 20,000,000 of working people simultaneously striking work in that department ; passing, in universal trades-union, a resolution not to beget any more till the labour

### Gist of Malthus.

We should note, though, what is sometimes overlooked, that he taught limitation of births not as a good in itself, but as a means of improving the quality of the people. "That an increase in population," he wrote, "when it follows in its natural order, is both a great positive good in itself and absolutely necessary to a further increase in the annual produce of the land and labour of any country, I should be the last to deny." He welcomed every improvement in the condition of his countrymen ; looked upon the great infant mortality as a public disaster ; sought simply to teach that the chief cause of poverty is the bringing of children into the world without having means to support them, and that the most certain remedy for such poverty is to teach people that home and family life is an object needing, and deserving, effort and waiting for its achievement. He writes : "A strong conviction in a young man of the great desirability of marriage, with a strong conviction at the same time that the power of supporting a family is the only condition enabling him really to enjoy its blessings, would be the more effectual motive imaginable to industry and sobriety."

It is more or less consciously realized among peoples that restriction of numbers usually improves their conditions ; since 1850 the birth rate has in all civilized countries—in the United States itself which would not be so densely peopled as England now is though the whole population of the world were there gathered together—shown a decline. Census returns suggest that the putting

market becomes satisfactory ? By Day and Night ! they were indeed irresistible so ; not to be compelled by law or war ; might make their own terms with the richer classes, and defy the world ! " (So Carlyle wrote of one whose zeal for repressing population had become an obsession, a fixed idea.)

off of marriage is one cause. The well-to-do bachelor, and perhaps even more the well-to-do spinster, do not care to face the possible relinquishing of their sports or their club comforts or their leisured luxury. One suggests also that emotion is taking a lessened place in life: it is not good form among us to show excessive feeling. Among the less well-to-do the growth-hindered unhappily when war conditions come—of providence has the same tendency to defer marriage.

The falling off in the birth rate among the better-off classes cannot, however, be altogether due to postponement of marriage if we may rely upon an elaborate investigation of London births. The areas taken for investigation ranged from "Very poor quarters" through "Comfortable quarters" to "Very rich quarters," and the number of births per thousand women between fifteen and fifty years of age was ascertained: the figures showed steady decreases from 167 in the "Very poor" to 63 in the "Very rich" quarters. Birth-control is found among creatures other than man: the first act in the life of a queen-bee is to sting to death the unhatched larvae that would also develop into queen-bees. Some classes and some peoples have so industriously imitated the bees that the question of "race suicide" is here and there a real one.

### **Unmerited Criticism.**

Some criticisms made, not so much against Malthus as against distorted applications of his teachings, are hardly tenable. One such is that there is always food enough to go round if only it were more evenly shared; it is the perversity of man, not the fractiousness of nature, that permits overflowing granaries in the United States to coincide in time with famine in Russia, that permits milk to be thrown away in Cheshire while babies go

short in Liverpool. The contention may be just, but it gives us no more help than our being told that there's plenty of good fish in the sea : you would hardly console the fisherman who had just lost a fine salmon through the snapping of his line by this comfort. We want the food to be where the hungry mouths are ; and trade alone can effect this.

A second contention is based upon the fact alluded to above, that increasing comfort results in a lower, not a higher, birth rate. Make a more even distribution, and there is little likelihood of a further pressure of population upon subsistence. Perhaps cause is here mistaken for effect. The reason for low pay in any group of workers is that the number of that group is large when compared with the demand for its services. The wages of the farm worker are low not because the farm worker is used to hard fare and cheerless conditions ; it is the keeping up of numbers under these harsh terms that depresses wages. True, the discoveries of science may bring it about still, as they have done so long, that the fields will yield their increase on easier terms. Happily, improvement may outpace population. It has done so with us : we can reasonably say that England is not so over-populated now as it was in Elizabeth's days. The country supports larger numbers in greater comfort. The reward for labour was once so much wheat wrested from a not exuberantly fertile soil under skies not always smiling to harvest. The reward is now more wheat for less labour exerted in factory and workshop. We "feed ourselves in the factory" ; and our tables are better furnished than when we fed ourselves in the fields. Even so, it may be urged that those peoples obtain the full benefit of improvements that exercise a wise restraint.

## CHAPTER VII

### DISTRIBUTION

*“Now consider that we have the valuation of our own deserts ourselves, and what a fund of Self-conceit there is in each of us—do you wonder that the balance should so often dip the wrong way, and many a Blockhead cry : See there, what a payment ; was ever worthy gentleman so used !—I tell thee, Blockhead, it all comes of thy Vanity ; of what thou ‘fanciest’ those same deserts of thine to be. Fancy that thou deservest to be hanged (as is most likely), thou wilt feel it happiness to be only shot : fancy that thou deservest to be hanged in a hair-halter, it will be a luxury to die in hemp.”*

#### Incomes Arise from Contract.

FEW of us in fact blush and protest our unworthiness when we get our pay. Our wage or salary or stipend or emolument—or whatever else we call the share allotted to us in the national income—appears no more than adequate to our deserts. It may well appear less ; for there is often a curious difference between our estimate of what we are worth to the employer and the employer's estimate.

That there are, in the distribution of incomes, strange contrasts none denies. It is not a perfect satisfaction to the farm worker to be told that he is the salt of the community—that the “peasant and farm-labourer form the dominant economic class”—when all that the arrangements of society affords him is 25s. a week, and some of that claimed from him by the State. Payment in thanks and praise is not permanently satisfying ; and the farm-worker may urge that the concert singer that can attract the crowds, that can command great fees for singing to make gramophone records, that can obtain payments here and there from the purveyors of soaps and perfumes and others of life's little luxuries.

earns more in a year than he does in a lifetime. Yet the work of him that coaxes the land to yield its increase is acclaimed the more needful.

We have no answer for him except by saying that wages, too, are an application of the idea of value. We pay more for a good gold watch than for a good metal one. But this is not because the first is the better time-keeper, has the greater absolute use ; it is because, given the choice, men take the gold watch in preference to the metal one. Wage-earners—among whom we include all who receive pay for work, from the Lord High Chancellor in his seat of justice to the seller of papers at the bank corner—may dislike the notion that they are put up at an auction where employers bid wages for them : “ we are as turkeys driven, with a stick and red clout, to the market ; or if some drivers, as they do in Norfolk, take a dried bladder and put peas in it, the rattle thereof terrifies the boldest.” So it is, though, when we make the necessary proviso that the worker sells not himself but a portion of his time and energy ; barters, if you like, part of his life to get the means of living.

### **Settling the Income.**

There is work to be done for the community ; there are many or few able to do the work. Here are the factors determining the wage. Let the community clamour the more eagerly for the work to be done, and the wage tends upward ; let the number thought to be capable of doing the work multiply, and the wage tends downward. There is only one Harry Lauder, and he can command a monopoly price ; there are any number of men able to empty dust bins, and the dustman must accept scanty reward for his necessary service.

Similarly, there is but a limited area in the City and

the owners of that area can command high rents for their spaces ; there is plenty of land on the Welsh mountains for which the owners would accept low rents, but nobody wants it. The services the land can render decide the rent that will be paid ; and this rent will go to the owner of land. The owner of capital, too, will obtain interest for the services, and in proportion to the services, that his agent of production renders.

In short, we may put it thus : a community has for consumption a never failing stream of goods ; after the State has had its share, roughly a third, this stream is available for those who have—either themselves or through their possession of land or of capital—co-operated in making the stream flow ; and the relative shares will be in accordance with the service rendered. The personal (human) services of labour, organization, and enterprise work together with the services of land and capital. A net product is made—this is distributed and finds its way to the disposition of individuals—as wages, salaries, profits, rent, interest.

### **Money Measures Income.**

These are money incomes paid for services rendered. All those engaged directly or indirectly in manufacture and transport, all land-owners and mine-owners, Lenin guiding and controlling a Russian revolution, and the juggler doing his turn in the halls, have helped to swell the stream of goods and services at people's disposal : and for so helping they get their incomes. Payments are made for the factors of production, the payments being made to the owners of the factors.

We are asked to believe that in those services—of the navy and the army, of the judge and the policeman—not so directly connected with production, the guiding rule is still the same : the incomes are paid because

those services conduce to the orderly conduct of the nation's life. Parliament votes so many millions for this supply and so many for that upon the assumption that it is not paying away our money to privileged people for nothing. The taxes we pay are to be looked upon as part of the expense of having goods and services available.

We should note, though, that payments for personal services differ in essence from payments for the services of property. Labour and the labourer are one. Wages, salaries, and, to some extent, profits go to the factors of production. The landowner and the capitalist are paid, however, because they own the factors of production : they are still paid because they render service, but it is service by proxy.

Economics in the study of distribution of wealth does not profess to show how one man becomes a millionaire, why another with apparently like endowments and like chances remains a pauper. The economist himself rarely makes a fortune. "He that can, does ; he that cannot—teaches economics." The answer to the question why one man succeeds where another fails is as hard to find as the answer to the kindred question why of two horses from the same stable one becomes a Grand National winner and the other a cab-hack. All that we can look to economics for are some general rules about wages, profits, interest, and rent.

Abundant production was once the obsession of the economist ; let there be enough produced, and distribution would take care of itself. Nowadays the manner in which wealth is shared is felt to be at least as important as the amount of wealth. The distribution of income, the manner in which the products of industry are shared among the co-operating producers, is therefore a main part of our study.

### Real Income and Nominal Income.

The income, we might note at this point, a man receives is not solely, sometimes not mainly, the money he gets : the £400 a year that the Member of Parliament has is the smaller part of his benefits he has from his occupation. And, happily for all of us, we have incomes—the society of friends, the amenities of home life, the power to enjoy a fine day or a good book or a pleasant outlook, a daily income of health and good spirits—not assessed in money but still an appreciable, if not always appreciated, part of our real income. The pieces of money we get are, indeed, worth only what we can get for them ; and if this amount—through a rise in prices—becomes less our real income falls. The nominal wages are in truth high enough in Germany and in Russia ; the real wages of the worker are terribly low.

In some disagreeable occupations, where the environment is soul-deadening, where those with whom we come into contact are ever surly, where work is a penance and escape from it the supreme pleasure, there nominal wages are pretty well the real wages too. They constitute the one gain against the sacrifices made. In other occupations, luckily the overwhelming majority, the real wages far surpass the nominal wages. Work is largely its own reward. The exercise of one's skill in agreeable surroundings, among pleasant fellow-workers, under genial heads ; the knowledge when the day's work is over that some good has been done ; the possibility of leisure and of pleasant ways of using that leisure—these may well reconcile one to niggardly nominal wages. The supplements do not, indeed, make pieces of money negligible ; for the most altruistic of us must live. We cannot clothe ourselves with delight in our work as with a garment. The supplements do,

though, enable the community to get some necessary work done for it cheaply.

So it is with the teacher. He must performe take the bulk of his pay in satisfactions other than big salaries. As things are among us, the wisest teacher will be paid less, nominally, than the stupidest general : the man or woman fashioning the souls of a generation is, in the hierarchy of occupations, on a lower level than the man expert in blowing their bodies to pieces with gunpowder. So, according to Stevenson, it is with the writer : " The writer (in spite of notorious examples to the contrary) must look to be ill-paid. . . . If you adopt an art to be your trade, weed your mind at the outset of all desire of money. What you may decently expect, if you have some talent and much industry, is such an income as a clerk will earn with a tenth or perhaps a twentieth of your nervous output. Nor have you the right to look for more ; in the wages of the life, not in the wages of the trade, lies your reward ; the work is here the wages. It will be seen I have little sympathy with the common lamentations of the artist class. Perhaps they do not remember the hire of the field labourer ; or do they think no parallel will lie ? "

## CHAPTER VIII

### WAGES

*“ Fair day's-wages for fair day's-work ! Alas, in what corner of this Planet, since Adam first awoke on it, was that ever realized ? The day's-wages of John Milton's day's-work, named ' Paradise Lost ' and ' Milton's Works,' were Ten Pounds paid by instalments, and a rather close escape from the gallows.”*

#### Payment for Services Rendered.

MOST of us are luckier than Milton in this matter. We get pretty well what we deserve ; perhaps more, for, says Hamlet, “ Give every man his deserts, and who will escape whipping ? ” However, since our wages are the result of a bargain, a contract, and since we are to assume that our employer has enough skill to estimate what services he gets for what wages, we need not be ashamed of taking them. We are to look upon the wages as a payment for services rendered ; it is the price of human effort of body and mind, exerted in order that man's needs may be satisfied. Whether the payment is made for work under constant direction or whether it is largely self directing—whether called wages or salaries or fees or stipend or emolument—it results from a bargain. The work to be done is, either expressly or implicitly, fixed in advance ; the price of the work, the wages that is, is also in our country settled by bargaining.

#### Fixing Wages.

Supply and demand are all-powerful in fixing the rate of wages as in fixing the price of a commodity. Men with capital to invest compete for the best users of

it, these best users being the employers that can pay the highest interest. And the employers compete to get the best workers, these best workers being those who can do most for the money. The greater the competition among the employers (or what is much the same thing, the greater the capital available), the higher tends the wage ; the greater the number of workers able to render the service required, the lower tends the wage.

Each party to the contract—the employer in buying the service, the worker in selling it—wishes to make a good bargain for himself. The worker's mental attitude is the same when exchanging his services for money as when exchanging his money for goods. The employer's mental attitude is the same when wondering whether he shall engage workers or install machinery to do the service. Both employer and employed are in constant competition with their fellows. And if, as we reasonably may, we take this as our interpretation of competition—a man measuring his ability and his means against those of another man working in the same field of human exertion to produce what men need—we cannot doubt that the consumer, everyone that is, gains because of the competition. He gets, for less money than if competition were absent, what he would have.

### **Harmony and Discordance of Interests.**

This price paid by the consumer is the source of wage as well as of profit. The element of conflict is therefore always present, and it is idle to ignore it : sharing of the booty is ever a precarious job. The interests of wage-payer and wage-receiver coincide for the most part. For wages come from the price realized for the product of industry. They may reasonably be looked upon as the discounted product of that industry. The employer estimates what he will get for his goods when made.

Competition of other employers constrains him to give this—less an allowance for interest, less, too, an allotting of payment to himself and some allowance for the risk of miscalculation—to his workers. The source of the wages paid to the factory or the farm worker is the price obtained for the calico or the corn produced. Here the interests are in harmony : both worker and employer are anxious that the product shall be as great as possible and be sold at high prices to the public without. Both wish that the factory or the farm shall continue working smoothly ; and this is assured when the product appeals strongly enough to the consumer, who in this matter of affording a source of income is a court without appeal.

The seeming divergence of interest comes when the question is to be decided, How much of the net gain shall be allotted to the worker, how much, indeed, to each separate worker, and how much to the employer ? What shall be the share of labour, what of capital, what of land ? Again we have an application of the idea of value. We may presume that all the factors are indispensable, that on the margin substitution of one factor for another is practicable, and that on this margin an indication of the answer will be. Neither the organizer of the business nor the men he employs can decide the wage to be paid, any more than the buyer or the seller can decide the price of eggs. Each needs the other. The worker cannot work unless he has at his command auxiliary capital ; the employer is out of a job unless he can get workers. His organizing skill and his business capacity are running to waste. We may, indeed, assume that the organizer has for a particular service a maximum price he will not—cannot probably—exceed. And similarly the man rendering the service has his minimum price : he cannot live on less, or prefers to take parish relief. Between the maximum of the organizer and the

minimum of the factors organized lies the market price of labour. But such artificial reasoning does not carry us far.

### **Large-Scale Production Complicates Matters.**

The problem of wages is in our large-scale production a complicated one. When it is a selling of services direct to the public it is simple enough. Here is a counsel that can rattle off two hundred words a minute, can persuade juries that his client has been deeply wronged, is an adept at making out a plausible case. The public values his services highly and, though briefless barristers throng the court and look on hungrily, his briefs are marked with heavy fees. The comedian that can night after night fill the house and make some hundreds of people forget for a joyous while all the cares of sad humanity makes his thousands a year. Such is the worth of his services to the manager.

In the factory, however, the product is joint, not several. The penknife as it leaves the Sheffield shop, has already had concentrated upon it the efforts of many workers and of many kinds of helping capital. How can we estimate the efforts of each co-operator when all are indispensable? Besides, we could not give to a worker the eighteenth part of a pin or the millionth part of a steamship. "The produce of labour constitutes the natural recompense of labour. But this natural state of things, in which the labourer enjoyed the whole produce of his labour, could not last beyond the first introduction of the appropriation of land and the accumulation of stock." So Adam Smith wrote, and since his day we have travelled far in the way of complication in industry. When so many have helped to make the plum pudding, upon what principle shall the price of it be divided? The employer, the organizer of industry, may help us to an answer.

### The Principle of Substitution.

There is now constantly in the mind of the organizers of industry the question " Shall I pay wages or interest ? " Wages being high, would it not be cheaper to install machinery ? The mistress, unable to reconcile herself to the excessive demands of the inefficient maid, visits an Ideal Home exhibition and obtains the never scowling helpers that lighten the housekeeper's work. She invests capital in a vacuum cleaner or an electric washer, and can dispense with maids. In any number of ways factor of production may be substituted for factor ; labour and land and capital are infinite in their combinations. This competition of factor with factor is made a very real one by the person most interested ; by the employer, that is, who at the first receives (as added profit or, if you prefer, as wages of management) the benefit of a useful substitution.

This devising of more and more effective means of production is an important function of the employer. He will substitute materials for materials—will consider whether iron or wood or aluminium is the better for his purpose ; will test whether the sheep or the shrub or the silk worm is the better provider of material for his textiles. He will substitute machinery for men, a steam shovel for a dozen navvies, a loading gear able to pick up and empty a wagon of coal instead of the shore gang. He will substitute workers for workers—will decide whether men or women workers shall be encouraged, whether he will spend more on the exertion of labour or on the direction of labour. The progressive employer will, in particular, make ever new groupings of men and machine. Capital is for the most part a complement to the human factor in industry. But it may lose this its natural character and become a supplement and a substitute. A rise of wages—unless accompanied, as

we may hope it is, by an increase in efficiency—is an added incentive to the organizers of labour to search out substitutes for labour. The rise, a reason for temporary rejoicing, may after a while result in few being employed at the higher rate and many being unemployed at no rate. Quite indispensable no one of us is, though we do not easily reconcile ourselves to the humiliating fact. But “more or less” is the phrase here, too. The world would be unperturbed at the loss of many among us; it could ill dispense with here and there a choice spirit. Perhaps it is by considering this question of how far a worker is indispensable that we shall find answer to our other question, “On what depend differences in wages?”

### **Economy of High Wages.**

That there is much truth in the phrase, “economy of high wages,” no one disputes; low wages are a fallacy, and cheap labour is usually dear labour. For, after all, what is bought with wages is an amount of efficient work. It is not the more or less protracted effort of the worker that is bought. The slave himself must be fed and clothed and provided with some sort of shelter, otherwise he is an unprofitable worker—earns less than his keep. How can a worker dissatisfied, filled with a sense of injustice and indignation, be other than a loss to the organization? The parallel with the steam-engine is not entirely misleading: up to a point the more coal consumed, the greater the efficiency of the engine; up to a point the more real reward of labour, the greater will be the benefit to society of the services of labour. “An army marches on its stomach,” we used to be told: the rations provided are a factor in the efficiency of a force. Increased efficiency is as much a result as a cause of high wages: if an employer, by a self-denying ordinance,

expended a great part of his profits in bettering the conditions of his workers, making his workshop a not disagreeable place to work in, providing facilities for bodily and mental welfare, it is quite likely that he would not, even financially, be the loser. He might consider, and be encouraged by, the number of instances among us of "enlightened self-interest"; the "good employer" gains by his goodness. Illustrations striking enough speedily come to mind.

### **The Enduring Interests of the Community.**

That the worker should receive adequate pay is a matter of concern to the community as well as to the worker himself. To use the cant phrase, we cannot build an A 1 nation upon a C 3 basis, upon so niggardly a supply of the means of living that the strength and the intelligence of the people cannot be maintained, much less increased. The immediate object may be profits; the wiser, more far-sighted policy may be to defer profits. During much of the nineteenth century, savings out of profits were in this country possible to an extent never before known. Railways and other helps to production were made from the savings; and, doubtless, we owe much to this accumulation of capital. Yet we are bound to think that a more real benefit to the society would have come from the savings if they had been more generously—and justly—spent upon the workers; on education, on housing, on the provision of means of healthy recreation. Wise expenditure, not foolish saving, is often the doctrine to be preached. The poet divides men into the niggards and the squanderers, into

Those that husbanded the golden grain  
And those that flung it to the winds like rain.

He left out of count the class of which we who study economics are doubtless part, the sensible spenders.

Is there any need for the startling inequalities of wages? If we agree that wages are the price of service, we must agree, too, that some inequalities there must be—"Saul has slain his thousands, David his ten thousands." It is, indeed, of little use to say that—given enough time for competition to work its full effect—the net advantages of all occupations are the same. Instances to the contrary are too many. The successful barrister gets more in a year than a coal-heaver in a lifetime. But this is not because the coal-heaver has the more agreeable job; nor because the barrister must spend some years and eat some dinners at an Inn of Court; nor even because the chance of success is so much less in one calling than in the other. It is because the barrister needs capacities not found in all men, and that his is a profession open to such only as can afford an expensive education and can afford, too, to spend a dreary time of waiting till the briefs roll in. The too glaring inequalities can, however, hardly be justified on any economic grounds; we are not to suppose that the "higher" work of the world would not be done unless rewards ampler than are allotted to the "lower" work were forthcoming. Plain living and high thinking are still compatible. And after all, what is the "higher," what the "lower" work of the world?

### **The Wage Contract.**

Wages, we noted, are fixed by contract. There is, however, a deep-rooted idea among workers that the isolated worker is pretty much at the mercy of the employer; and we have therefore those combinations of workers we call Trade Unions. The general object of these is to secure the most favourable conditions for

the worker, to increase the real reward for a given quantity of labour ; the particular object is to strengthen the bargaining power of the worker. For unless he sells to-day's labour at once it perishes, and he may be forced to take whatever terms are proffered him. Adam Smith himself explains why bargaining power is unequal : " The farmer, the master manufacturer or merchant, though they do not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year, without employment. In the long run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate." Poverty prevents bargaining ; it forbids the sellers of labour to stand out, as other sellers usually can do, for a reasonable price. It is to supply this power of waiting that many unions of workers have gathered together what, in our fondness for pompous terms, we call a sustentation fund.

### **The Source of Wages.**

The merchant or the manufacturer does not, could not, indeed, pay wages out of his own pocket. The one source of wages is the price that will be paid for the product the worker has helped to make available. If this price is low, wages will be low ; if, in that particular undertaking, capital can make good a claim for more, wages will be less ; if one class of worker gets a greater share of the social product, less is left for another class. This does not suggest that " over-population " is the cause of low wages or of unemployment ; it does suggest that when the services of one set of workers must be had, then those workers can make the better terms for themselves. If two workers run after one employer

wages fall ; if two employers run after one worker wages rise.

That wages come from product is obscured a little by our money system. Yet, though the products of a society are not placed in a central storehouse whence the producers can draw in accordance with their contribution, the fact cannot be doubted. The amount we can consume as a society is the amount we produce as a society. And we are not quite unjustified in thinking that there is a rough justice in the distribution.

It is, at any rate, a fallacy that wages depend upon another thing than productivity—upon elusive ideas of “standard of living,” or “responsibilities,” or “position to keep up.” A curate does not get his stipend in accordance with his responsibilities—because he has a wife and many children to maintain ; nor for any other reason than that he provides what is wanted. An actor will not get pay simply because he has worked hard, studied intensely, and interprets Shakespeare in the only right way, nor because he must wear a fur overcoat and have a high-power car. Unless he can draw folk to his theatre he is wageless ; for he has produced nothing that is wanted.

Work, in the sense of exertion and sacrifice, is not the deciding factor in wages. It comes to this : in order that we may enjoy the more abundantly, we no longer produce separately ; we have made a tacit bargain with our fellows ; so doing, we must consider their wants, and even their whims and caprices. If they order poultry we are foolish to provide pork. A man cannot make out a claim to a living in that he has worked hard ; he can justify such a claim only by showing that he has served the community, has produced something that the community, wanting it, is prepared to pay for.

## CHAPTER IX

### INTEREST

*“Quitting the common Fleet of herring-busses and whalers, where indeed his leeward, laggard condition was painful enough, he desperately steers off, on a course of his own, by sextant and compass of his own. Unhappy man! Though neither Fleet, nor Traffic, nor Commodores pleased thee, still was it not a ‘Fleet,’ sailing in prescribed track, for fixed objects; above all, in combination, wherein, by mutual guidance, by all manner of loans and borrowings, each could manifoldly aid the other?”*

#### Nature of Interest.

INTEREST, too, is a payment for services rendered by an agent of production, by capital. Payment is made to the owner of capital. Interest payment is incident to, and a result of, our institution of private property: so long as we maintain and approve this institution we cannot make good a protest against interest payments. One is involved in the other. Recognize that a man has a right—certified by his possession of much money—to ask builders to make a factory for him, workers in steel to provide him machines, farmers and others to provide materials for him; and at once we recognize that he can obtain from others, eager to get that right, a payment. Society agrees that a man shall be allowed to enjoy his own; society is only consistent when it agrees that he shall be permitted to let another enjoy it and upon agreed terms. We boast of our freedom. And an important part is the freedom to make such bargains as appear good to us. The lender may, indeed, lose his capital instead of gaining interest; the borrower may find that the advantage he gets from the capital does not equal what he pays for it. But these risks are incident to all bargains.

There need be no far-fetched reason for interest payment. Reward for waiting, payment for abstinence, compensation for saving, insurance premium against loss—these are all well enough. But the one cause for interest payment is that such constitutes a right of property: a man has a right to enjoy what he has earned or saved or obtained by gift; he has a right to allow another, for a consideration or not, to enjoy it. The old strictures against usury cannot be looked on as consistent with full recognition of property rights. Bacon himself wrote, at a time when practical expediency made interest payments usual, “Usury is one of the certainest means of gain, though one of the worst, as that whereby a man doth eat his bread in *sudore vultus alieni* (in the sweat of another man’s brow); and, besides, doth plough upon Sundays.” But the practice of trade prevailed. Interest payment, the right to ask and to give money for the use of money, raises only rare protests among us. It is, on the contrary, looked upon as an advantage that a man whose credit is sound can, for £5 a year, get the enjoyment of a capital of £100 a year. A man is happy to pay rent for the house he wants; he does not complain at having to pay one for the capital he wants.

### **Interest Payment Conducive to Social Well-being.**

Nor is interest payment against the enduring interests of Society. Rather it may well be looked upon as the incentive that society affords to ensure that capital shall be maintained and increased. For capital, upon which the well-being of society depends, is not a thing fixed and independent of efforts; it is not a durable, a permanent, source of income remaining intact though new wealth is constantly being taken away. We sometimes

talk about "fixed" capital, suggesting that some forms of the property helping labour do not disappear. The factory and the furnace, the "permanent" way of our railway lines and the bridge joining two great towns, are fixed capital ; but these too, are kept intact by human effort.

The parallel with the fruit orchard or the cattle ranch is not sound ; these themselves must be maintained as well as made, gardens quickly run wild and cattle untended cease to be property, cease to be wealth, that is. Mr. George's hesitating contention in his *Progress and Poverty* is : " Supposing that in a country adapted to them I set out bees ; at the end of the year I will, upon the average, have an increase. Now, what gives the increase in these cases is the power of nature, the principle of growth, of reproduction, which everywhere characterizes all the forms of that mysterious condition which we call life. And it seems to me that it is this which is the cause of interest, or the increase of capital over and above that due to labour." Wealth, however, is created only in so far as nature is diverted from the course she herself would have chosen : her products are, by man's efforts, changed in form or in place. Allow nature to have its own way, and the land will become a wilderness ; allow man to do what he pleases and anarchy will result.

### **Interest gives the Necessary Supplement.**

We may, while upholding the payment of interest, still agree with those who contend that all the borrower should be required to do is to pay back the same amount. He does pay back the same amount, though the names differ. For we all esteem an ounce of gold here and now preferable to an ounce a year hence ; there needs a supplement to balance the two in our minds. If one hesitates which to choose then £100 now is the same as

£105 in a year's time. The future is uncertain : when the Ides of March have gone Caesar may be no more, and his creditors be forced to scramble for their money ; your debtor's ship may never come home. At all events, among most communities interest payments are tolerated and even approved ; though we are told, the devout Mahomedan will not touch interest even when he has deposited his money with a Christian banker. "God permits sale, not usury," says the Koran.

Money is barren, was the dictum of Aristotle, writing against the exaction of usury : "For when did friendship take a breed of barren metal from his friend." Old coins don't produce young ones. Certainly, but what the business man borrows is capital, not money ; he is no business man if he hides the money in a napkin. Money is simply the means of transfer of capital. We, indeed, reckon in money the capital subscribed for the making and working of a Manchester Ship Canal that may make the fortune of its shareholders, but also may not ; that may afford a stream of earnings from which to pay interest on debentures. But the capital lent consists of things. The applicant for debentures sends with his application a cheque drawn on a banker. The banker has credited the applicant with claims upon the stock of things money can buy ; some of these claims—measured in money—are transferred to the directors of the undertaking ; and these use the claims to pay their workers and to buy their materials. The banker does not create the capital that is lent. It comes because one who might have consumed has abstained from consumption.

### **"Saving" is an "Abstaining."**

It is a wresting of the word from the usual sense to speak of the "abstinence" of a great capitalist : probably

his consumption is limited by his inclination only. Yet we may take it, most likely, that—deprived of confidence that the future would give him an advantage from it—the owner of a present surplus would find a present way of using it. He would devise some magnificent and pompous display, some lavish and useless hospitality, some way of no benefit to the community as a whole—of no benefit since the productive powers of the community would not be improved. But we have a banking system and we approve of interest payment ; and the man who might have dissipated his surplus saves it. The saving is, doubtless, a money one ; but that does not alter its nature. When money is saved it means that the saver hands over to a banker that part of the stock of goods he might consume, but does not. Another obtains the savings from the banker and they are certainly consumed ; but consumed in some form of productive labour. The real savings have disappeared ; but in their place has come other and greater wealth from which a payment of interest can be made.

### Payment of Time.

Perhaps the real nature of interest is seen most clearly in the “discounting” of fine paper. There no question of non-payment enters into the calculation ; the discount measures simply the degree to which the present is preferred to the future. “Interest is the price of Time,” said the Fathers, anticipating our modern proverb. They refused to leave it at that, however, but continued that since Time belonged to Heaven it could not be sold, could bear no price. We are without scruples in the matter, especially when the interest payment arises from the use of productive capital.

We can, perhaps, point to hardly a single instance of a payment simply for waiting—for “pure interest”—

such a payment as serves to supply the makeweight that makes the future balance the present. For the future is never certain. Our own consols are themselves not immune from risks. The gilt edges upon them may, quite properly, be of the thickest ; but the man who in 1913 bought consols at 80, and was obliged to sell them in 1918 at 50, lost more than the bare figures denote. For the 80 were gold sovereigns commanding much and many ; the 50 were Treasury notes commanding less and fewer. In other placings of savings the risk of loss is greater ; and men make allowance for it. There would be no capital forthcoming for hazardous enterprises if these promised no more to the investor than Consols do : we should have still been without railways or steamships.

### Insurance Premium.

Much of what we know as interest payment is, in other words, a kind of insurance premium against the risk not only that may no payment be forthcoming but also that the actual loan may be wholly or partly lost. The investor, true, is his own insurer. He must, indeed, be so, since no insurance company could shoulder the risks.

Consider a little while the accepted view upon returns to investments. In order to round off his argument neatly, the economist declares that—when due allowance is made for varying degrees of security—such returns tend to equality. The 5 per cent from Government Stock is equal to the 55 per cent from a successful gold mine. The 50 per cent of excess is no more than compensation for risk in a venture where at least half the undertakings are failures, failures because the gold reef has petered out, or has not yet been located, failures because the vagaries of nature and the vagaries of man

have overturned reasonable anticipations. The 50 per cent is such a premium as an insurance company, well aware of the frequency with which estimates are falsified, would charge in order to guarantee the safety of the principal sum invested. Exceptional gains no more than balance the chance of exceptional losses.

This idea of equality in returns needs modification, however. The economist, you note, guards himself by the saving word "tends"; he wishes you to realize that there is no mathematical certainty about the matter. The extra return for an investment attended with risk—and business is a speculation from end to end, a throwing of realized wealth into a melting-pot whence it may or may not emerge as valuable products—must more than balance the chance of loss. Otherwise this supply of capital flowing into business will dwindle and fail.

No sensible man will run the risk of exceptional loss if there is *only* an equal chance of exceptional gain. Just as the premiums paid to the insurance company much exceed the expectation of loss, so for a risky business the expectation of profit must be well above the normal returns on safe investments. This is quite in accordance with what reason would dictate. We continue to insure, though well aware that the odds are heavily in favour of the insurance company: though it is but one chance in ten thousand that our house will be burnt we willingly pay one in a hundred to be indemnified in the event of an outbreak of fire. And, in like manner, speculative investments will continue to yield a return that more than pays their insurance premium—is more than an arithmetical compensation for the chance of loss. In other words there is an actual payment for risk-bearing; an investor will not take risks unless he thinks the odds decidedly in his favour.

Nor should he. For, whatever arithmetic says, an equal chance of nothing or of £200 is not worth £100. There may in truth be some sort of exhilarating pleasure in taking a big risk, in, say, venturing £1 for the hundredth chance of winning £80. The investor, however, is usually faced with the alternative of a large chance of small gain and a small chance of great loss or of absolute failure. The latter is a deterrent that must be overcome, if capital is to enter upon risky speculations (upon which, we should note, progress is dependent); and the prospect of enhanced returns is the one effective way of overcoming the reluctance.

## CHAPTER X

### PROFITS

*"Gullible, by fit apparatus, all Publics are ; and gulled with the most surprising profit. Towards anything like a 'Statistics of Imposture,' indeed, little as yet has been done : with a strange indifference our Economists, nigh buried under Tables for minor Branches of Industry, have altogether overlooked the grand all-overtopping Hypocrisy Branch ; as if our whole arts of Puffery and Quackery, and the innumerable other crafts and mysteries of that genus, had not ranked in Productive Industry at all ! Can any one, for example, as much as say, What moneys, in Literature and Shoelocking, are realized by actual Instruction and actual jet Polish ; what by fictitious-persuasive Proclamation of such ? "*

#### Profits in the Wide Sense.

WHETHER or not he does it by gulling the public, the business man must, in order to make his profits, sell his goods. His finding a market—his getting the goods into the hands of the man or woman that will pay in order to use them—is as important a part of the act of production as the gathering from the four winds of the materials for manufacture. And, though he may for convenience of study put the expenses entailed in finding a market as "Selling Costs," these expenses could well go as an item in "Productive Costs."

In the wide sense profits are the reward of the business man, of the employer, his share of the result of the co-operation of the factors of production. If, when the year's accounts are made up, he finds that he could take out of his business £10,000 and still leave its earning capacity unimpaired, this measures his profits. He has contributed to these factors his *organizing skill*—has planned the works, recruited the workers, collected the materials, gathered the capital, and found the market.

*Capital* is his, too, most likely, and he may be expert in some branch of his work. In this sense, therefore, profits will include several elements, *wages of management, interest, salary*, as well as *the reward for his enterprise* (the *payment for risk-taking*).

In this wide sense, profits will be, under some name or other, a necessary payment however industry is devised. A community, large or small, may decide that profits are a burden that need not be borne ; but its officials will still need to carry out the employer's work. The elements making up profits are in fact clearly separated for us in a joint stock company : the earnings of management are the directors' fees and the managers' salaries ; the interest payments are the fixed amounts paid to the debenture holders ; the payments for risk—the reward for enterprise—are the dividends to the ordinary shareholders. We may take it that the community gets its business, its "employing," done for it if not gratuitously, at all events very cheaply. For, when once a man has linked up his fortune with an undertaking, then the only way to get interest from his savings is to continue the business ; and he will go on though little can be paid for his "wages of superintendence" and nothing as his "reward for enterprise." Besides, many a business man goes on for himself—using talents and employing energy that would command him a salary far greater than his profits—simply because it is for himself : the pleasure of the chase is part of his payment, he delights in the uncertainty of things.

### Profits in the Narrow Sense.

In the narrow sense, profits are the exceptional gains going to those who have had the acute vision, or the good luck, or the mind receptive of good counsel, enabling them to accept a chance of making money in an untried

way. It is this reward for enterprise that is an unfailing incident in a society that progresses. Projects are presented in bewildering number and kind ; and men are invited to link up their fortunes—or part of them—with the ventures. If the venture fails (but no projector suggests this) the savings made are dissipated without return just as much as though they had been squandered in making an ornamental lake or a monstrous column serving for nothing but the wonder of a gaping crowd. If the venture succeeds (and the careful calculations made, the reports of experts, the firm faith of the projector, all point to this) the capital invested will, after few or many days, yield its increase.

The man with money to invest has the keenest spur to make him exercise a wise discrimination among the plans inviting his co-operation ; upon his ability to distinguish the wheat from the tares, the undertaking that will provide food and clothing for the years to come from the undertaking that will eat up his capital and yet be unsatisfied, depends his welfare. And not the degree of productiveness only but the period—when it will begin, how long it will last, whether returns will show an ever ascending curve or whether they will, after a few years of feverish prosperity, dwindle and disappear—is his concern.

Here is a project to cut through the Isthmus of Panama, and make a broad sea way over which the ships of the nations may sail across the Americas. For thirty years it will call for outlays enormous, and when first opened no astonishing amount can be expected. A private capitalist cannot wait so long though an enlightened Government, thoughtful of the enduring interests of its people and of the world at large, may well adopt the plan and carry it to fruition. Here is a proposition about orange farms in South Africa : an outlay of £125 for each of five years will give an assured income, when the

land has been prepared and the trees begin to yield their golden fruit, of £500 a year. The waiting period is not so long ; but we begin to wonder whether the estimate is not too sanguine and based upon the surviving successes, the failures along with their capital having dropped out of the count. To estimate the profits from land is a hard task. We are told that the British farmer himself is a seer of visions as he talks with one having capital to invest and that, if you heard him next day speaking to his landlord, you would hardly know him as the same man. Here is another invitation : a long established firm, eager to extend its operations, offers 7 per cent debentures at par. No deferring of his hopes here, little risk except of such unlikely happenings as would bring down the whole business structure of the society, a reasonable return with the nuisance, however, that the Chancellor of the Exchequer gets his share first.

### Reward for Risk-taking.

Profits, in the sense of payment for risk, are the most changeable share of the income from the co-operation of the factors of production. Wages are fixed as a result of the contract between employer and employed ; interest is fixed as a result of the contract between borrower and lender ; profits are a speculative gain. And if the risk is not only run but realized the profits become losses. The profit-maker certainly is the first to benefit from improving conditions in his industry ; he is also the first to suffer from things adverse. He is the residual claimant, and there may be no residuum. And, though the residuum may be large, the community probably does well to approve of it ; for, from the undertakings yielding the profits, the community benefits. It is the hope of profits that spurs the trader or the manufacturer to do more and better for his fellows,

gives him a stimulus to invent, to economise in work and in capital, to find out new materials and new ways of subduing nature. Senseless risking is checked ; for failure involves loss of capital and, what appeals greatly to many a business man, of a reputation for shrewdness. And, even if the capital embarked upon the enterprise is not his own, the fact that he has lost it will hinder his access to any for future plans.

Enterprise—the seeing and seizing a chance others have neglected—is still shown when a capitalist, persuaded of the soundness of an inventor's idea, finances an undertaking. For the power to recognize worth merits reward. The profits are, doubtless, great indeed at times and seemingly out of all proportion to the service rendered. Yet it is ill-judged to interfere with them. We could hardly find a more potent persuasion to progress. The hope of profits is the impetus to invention and initiative ; it is the force breaking through our old-fashioned and ineffective methods ; it dissolves prejudices and assures advance.

### **Economic Justification of Profits.**

The benefits from the profit-making undertaking cannot all, or indeed in great part, be taken by him that shows the enterprise. The community has a keen interest in business success : it may well congratulate itself that it has among it men who, making for themselves their thousands, save for it millions. Nor are the profits made in a new direction such a differential gain—such a rent, that is—as is bound to continue. Not the man who has perfected an ingenious machine nor found a new and better method is assured of extra gains in perpetuity ; and new ideas speedily become disseminated. At the outset the enterprise may make large returns to capital. For it is without rivals. But as

others are impelled, through their eagerness to share in the exceptional gains, to enter into the branch of industry, the rate of profits falls. Profit diminishes till it is no more than regular pay for skilful, honest, and hard-working management. Profits in the narrow sense—exceptional and speculative gain—will have vanished ; and only the other elements will remain.

Profits vary so greatly in amount and are made in such a variety of ways that we can hardly hope to lay down any convincing general rules about them. There is no “type” of business man : the talkative and the taciturn, the genial and the surly, the man who confines himself to the main lines of the business and the man who pokes into all sorts of details, the man generous and the man stingy, the man who has artistic or other tastes outside his undertaking and the man whose whole mind is wrapped up in his business—all make profits. But not, of course, *merely* because they take risks : we don’t of necessity gain when we risk half-a-crown upon the event of Tottenham Hotspur’s winning the cup. It is the successful taking of risks that matters.

### **Business Success.**

We may, indeed, suggest that to achieve success in business—to make abundant profits being the criterion of success—a man needs qualities not often found in combination. He needs to take risks wisely ; and he must therefore have power to realise distinctly the promising though risky adventure. He must, in other words, have power of imagination : the great business man who moved his little soap-boiling establishment from an inland town to where, on the Mersey banks, he could easily assemble the factors of production, must have seen in vision the future home of many thousands of happy and prosperous citizens.

The business man must, moreover, be able to study the suggested project with insight and much special knowledge. For one thing, the greater the knowledge the less the risk : if a man is able to predict with certainty, he runs no risk at all. The business man must, therefore, have much knowledge of his undertaking, and much power of mind to apply that knowledge. Ability to judge—intuitive power we may indeed call it—is essential to success ; for projects come with all sorts of queer surroundings and a man must be able to cut sheer through the frillings and get to the heart of the thing.

Confidence in himself and in his own judgment is called for ; business chances do not wait an indefinite time, and being unseized they disappear. Unless a business man can make up his mind quickly, and act upon his resolution, he lets others anticipate him and he finds himself left in a back-water. He must, too, since he is obliged in these days of large scale production to obtain command of much capital, be able to inspire confidence in others. Tact and good manners, discretion and readiness, a strong sense of duty and a willingness to oblige, good health and wise conduct of life—these, too, are factors making for success.

If these and kindred qualities are called for, we need not marvel that business ability is able to command a kind of monopoly price ; so that we need not cavil at the statement that profits are a *rent of ability*. Nor can we deny that training goes but a little way to produce these desirable qualities ; training may develop, it cannot create.

## CHAPTER XI

### RENT

*“Did Nature, when she bade the Danau bring down his mould-cargoes from the Corinthian and Carpathian Heights, and spread them out here into the softest, richest level—intend thee, O Marchfeld, for a corn-bearing Nursery, whereon her children might be nursed; or for a Cockpit, wherein they might the more commodiously be throttled and tattered?”*

#### Varieties in Land.

LAND, indeed, like other agents of production may be diverted from its proper functions of serving man and be made a help to destroy; and, in this also like the other agents, its capacity in either function varies infinitely from plot to plot, and from time to time. Some tracts can never, whatever mutations come, be of service to man; other tracts—lands flowing with milk and honey—have been coveted ever since men understood how dependent they are on the harvest of the fields. Men construct at Assouan a dam that will economize the Nile water and so regulate its flow that it becomes a blessing instead of a curse; and, in a little while, wide tracts of desert blossom as the rose. On the other hand there are regions—like Macedonia, for instance—where excessive taxation has stricken industry with a numbing paralysis; nature, no longer subdued and made servant to man, has resumed its sway, and gardens have become wildernesses. When, in ancient days, the land at Babylon was eagerly coveted and stood at a great price, the land upon which stand the mansions and palaces of Mayfair was as little worth as is the land alongside which the Amazon rolls. Now Babylon is a quarry of stones and the land around is a desolation.

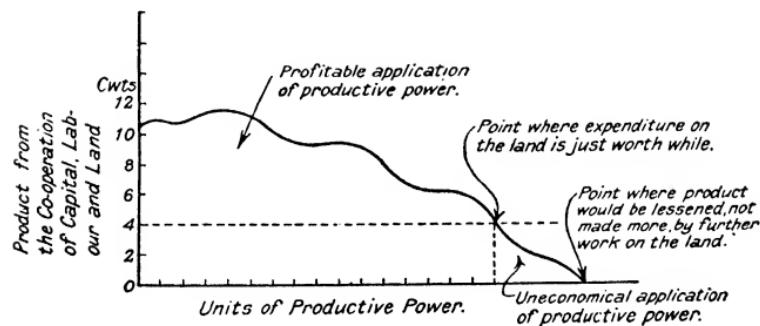
Where the quiet-coloured end of evening smiles  
Miles and miles  
On the solitary pastures where our sheep  
Half-asleep  
Tinkle homeward through the twilight, stray or stop  
As they crop—  
Was the site once of a city great and gay.

In our own country the services that can be rendered by land vary infinitely ; and the price that can be exacted for these services also varies infinitely.

### Rent : the Price Paid for a Superior Instrument.

This price is rent. It arises because the particular pieces of land that can give the services sought are fewer than people want ; it is only when land is scarce in relation to the desire for it that rent emerges. As the number of people living in a country becomes greater, the land is called upon to yield ever more and more crops. For all life is, in the last analysis, dependent upon the green plant : "*all flesh is grass* is not only metaphorically but literally true" ; the crops build up our bodies either directly or—when we eat those creatures that themselves feed on plants, "more remotely carnified in us,"—in a roundabout way. The land that gives bountifully in response to labour can supply but a part of what is wanted. Land not so ready in reply to man's efforts must be called upon. For the "law" of diminishing returns begins to operate ; as we ask more and more from a particular plot it gives us that more on harder and harder terms. A farmer sows his seed, and tending it he obtains an amount of produce. If he doubled his attention, doubled, too, the seed and the plant food scattered over the field, he would obtain more produce. But it is unlikely that he could thus double the first amount ; and if his care and attention were progressively increased it would "pay" him less

and less, till a point would be reached when, however much labour he spent on the field, no increase of produce would emerge. But no sane farmer would ever reach this point. Long before his land could yield no more, however tenderly nursed and fed, he would have decided that the limit of profitable outlay had been reached.



Suppose that this composite unit of productive power means a production expense of 100s.; and suppose that a hundredweight of wheat can be sold for 25s. Then until the curve of production falls below the 4 line, it will "pay" the farmer to cultivate his soil more intensely.

### Law of Diminishing Returns.

Mill's illustration of this law of diminishing returns—without which there would be no need to farm the inferior soils—is a happy one. The obstacle, he says, to production from the soil is not like a wall that stands immovable in one spot and offers no resistance to motion short of stopping it altogether. It is rather like the

resistance offered by an elastic band, which is hardly ever so tightly stretched that it could not be stretched any further ; but which calls for ever more and more force to lengthen it. Natural agents are limited in quantity ; they are limited also in their productive power ; and, long before that power is stretched to the utmost, they yield to any additional demands on progressively heavier terms.

Economic rent upon land would emerge, that is, even if all land were equally fertile and equally well placed. For it depends upon the law of diminishing returns. There comes a point with the best land when the farmer would put more money into the land than he could extract from it ; there is a point where the money spent on the land is balanced by the extra amount realized from the increase in crops ; till this point—not, you note, of necessity last in time—is reached, any expenditure is more than repaid.

As things are, differences of quality, whether for crops of houses or for crops of corn, slide into one another by infinite gradations. Differences of accessibility—of distance from markets—clearly do the same. In a country of any size there must be some “no-rent” land, some land that will not pay to farm—great stretches in Essex, next door to the biggest market in the world for food, would seem to be in this case, since they remain in much the same state as when the Romans ruled here. The owner may be unwilling to give the land away ; for pride of ownership may be some satisfaction derivable from the land. But a farmer would lose upon it even if he were permitted to have all the land produced ; even if, that is, he paid no rent. In Canada, likewise, no practical man would accept as a gift much of the land if there were a condition attached that he must cultivate it.

### Some Effects of the Law.

If this law of diminishing returns were not operative we might get our crops, however great we needed them to be, from the best lands—from those most productive and nearest to the consuming population. We could have the rest of the land for our building sites, for the amenities of the chase, for the wide open spaces where we could look into the face of heaven and breathe freely. As it is, we are obliged to have recourse to lands yielding their increase at ever greater expense ; the demand it is, mirrored as that demand is in the price people are prepared to pay, that settles how far cultivation must go, whether it will pay to drive the plough along the mountain side, whether it will be an advantage to stub up Thornaby Waste.

If, indeed, an invention made it possible to produce more at the same expense on the better soils, there would be the less need for the poorer ones. This is sometimes expressed by saying that the landlord's interest is, at first sight, opposed to the interest of the community. The community wants cheap bread ; but there can be no cheap bread if some wheat must needs be wrested from reluctant soil. Any improvements in farming—whether those improvements are in rotation of crops, or discovery of cheap and effective manures, or invention of farming machinery, or in transport—diminish rent. For they help to remove the need for having recourse to poorer soils. They enable greater crops to be grown on the better soils ; and the poorer land goes out of cultivation. The land on the margin, that leaving nothing for rent, is of a higher quality than before ; and the landlord's rents are lessened, in the first place because some land that formerly paid rent no longer pays it, in the second place because there is a lessened advantage of the best land over the worst in

cultivation. Rent, that is, depends upon price, not price upon rent. A buyer of wheat does not ask, "What is your rent?" when he buys; it is immaterial to him whether the wheat was grown on the fertile flats of Cambridge or halfway up the Pennines. The price determines to what extent men are desirous of obtaining wheat. If this price is a high one it becomes profitable to farm land not greatly favoured by nature; and if this price falls, some of the land that was taken into cultivation in order to take advantage of high prices goes out of cultivation.

Rent, we say—the price that will be paid for the services of land—depends upon price; not the converse. Ricardo, whose theory of rent we have sketched, said, "Corn is not high because a rent is paid; but a rent is paid because corn is high. That corn which is produced by the greatest quantity of labour is the regulator of the price of corn; and rent does not and cannot enter into the least degree as a component part of its price." The price of anything is fixed by the cost required to bring out the last necessary portion. If the community is eager for wheat, or boots, or bacon, the community must be prepared to pay the price that will recompense the producer who works under the least favourable conditions.

Every other producer will benefit; and the rent, which competition will enable the landlord to exact, will be the measure of this benefit. It comes from the possession of a superior instrument of production; and will be paid to a landlord, or appropriated by the producer. We may be quite sure that no producer, whether he produces in field or in the factory, will give to the consumer the benefit of the superior agent. If prices range high it will be profitable to till the fields that give only niggardly returns; inferior land, scorned at

another time, will be farmed. There will, accordingly, be a bigger difference between the return from the better land and that from the worst under tillage, this worst being that which it just pays and no more to cultivate. If prices fall, the less productive land goes out of cultivation, and the better land is less urgently asked for returns.

### No Direct Proportion between Price and Rent.

This does not mean that there is a direct proportion between the price and rent ; that, prices having fallen 10 per cent, a landlord should, in fairness to his tenants, lower his rents 10 per cent. The matter is not so simple as this. Clearly, such land as should go out of cultivation altogether would lose not 10 but 100 per cent of its rent. And the better the land, the smaller would be the decrease in its rent. The rent is not a *part* but a *difference*. Economic rent is the answer to a subtraction, not to a division sum. Rent is always measured upwards from land that can pay none, from land that is, we may say, on the margin of cultivation.

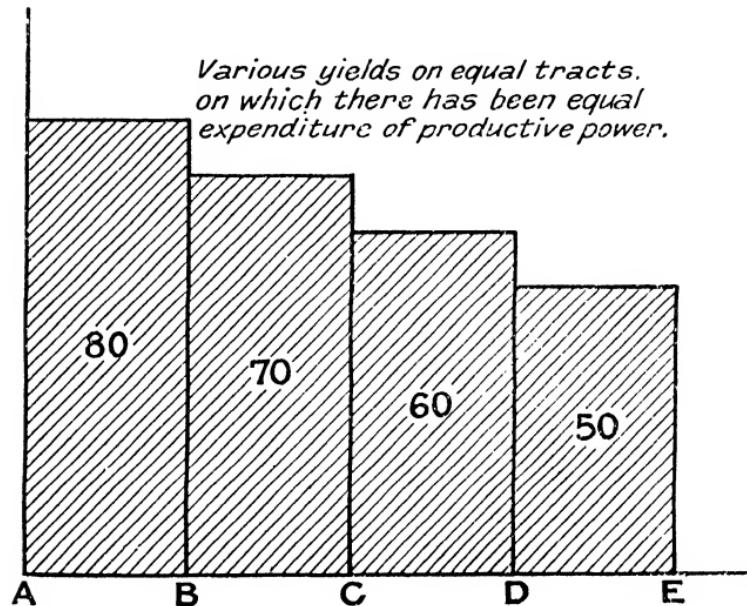
Suppose we try to make the matter clearer by a little diagram ? The suppositions we shall make are not altogether alien from real life ; though one can hardly expect the farmer to reason mathematically when he decides which fields to plough, how often to plough them, how much money to spend upon them in other ways. He trusts largely to his empirical skill in foretelling what crops will accrue and what prices he will realize. However, we who are not farmers may be allowed to surmise : we may be allowed to take it that the money spent in various ways upon the land will mean, when the harvest is garnered and sold, a return at least equal to itself. If the farmer makes up his mind to spend another pound or two in chemicals he must expect to

sell his crops for at least that pound or two more than if the chemicals had not been applied.

We measure along a horizontal line equal tracts of land ploughed up and sown with wheat, but yielding to the loving care bestowed upon them fewer and fewer hundredweights of wheat. That is—either because the yearly endowment of sunshine and rain is defective ; or because the soil is stony ground, is prolific in its bearing of thistles, is lacking in plant food ; or because the distance from those that will eat the wheat entails a long journey by road or rail—the various tracts are less and less eligible to the farmer. He would give much rent to be allowed to farm the first ; he would give nothing, could not as a reasonable business man give anything, to farm the last.

The tract *DE* would be sown with wheat only when the eager demand for wheat made it profitable to farm it ; for the eager demand would be evident in rising prices. We might, indeed, imagine a farmer so accurate in his estimate, or so lucky in his haphazard decision, that he stops cultivation at the exact point where it ceases to pay; he neither takes in unprofitable land, nor farms profitable land more intensely than is justified by the returns obtained. Suppose *DE* is this tract on the margin, just paying its way by yielding 50 cwt. This tract then affords a standard for the measurement of rent. If *CD*, with the same expenditure upon it, yields 60 cwt. then 10 cwt. are the economic rent of *CD* ; if *BC* yields 70 then 20 cwt. are the economic rent. If now, through such a fall of wheat prices as our farmers experienced when the cessation of war made the wheat lands of the world again accessible, it becomes unprofitable to put *DE* under wheat, then a better quality of land, *CD* perhaps, becomes the land on the margin, just paying its way and giving no surplus for rent. And the

differences—those differential gains that are rents—on *BC* and *AB* become less: the rent of *BC* would be ten instead of twenty, of *AB* twenty instead of thirty.



### Agricultural Rent only One Species.

We are to note that the economic rent of land is only one species of a very large genus. Whenever two unequal factors of production are called upon for the same or very nearly the same work, then an economic rent emerges. Contrast two packers of tea and makers of sweetmeats. Here is one established in the green heart of Middlesex where there is cheap and ample space for carefully planned laying-out of the factory. The whole thing is a unit, one part dove-tailing with

smoothness and accuracy into another, the whole showing the idea of a master mind. At one end of the factory is the canal, at the other is the railway. Alongside the factory, the lighters come from Tilbury with their sugar and cocoa beans, with their flour and eggs ; and around the factory is a rich pasture country whence supplies of fresh milk come. There is in the actual working a forward movement from the travelling cranes that empty the lighters to the railway wagons that, on the farther side, await the dainty packages, the many thousands of packets of tea, the chocolates and jellies and toffees. Handling of materials in the process of making is at a minimum ; no one, indeed, touches the tea at all : it is blended, weighed, packed, labelled, counted by machinery one could easily think sentient and intelligent. Abundant space for the workers, light and air and warmth as one would have them, an afternoon cup of tea and quiet rest rooms or pleasant playing fields for the midday break—these all conduce to lighten and relieve labour.

Here is a second factory in an area congested, where space is so expensive that such indirect helps as canteens or reading rooms are out of the question, where—to the uninitiated at all events—confusion reigns, where one worker cannot but impede another, where is constant movement backward and forward of materials. Grimy and stuffy rooms, much avoidable noise and dust and bustle, must detract from efficient work ; and the looks of sullen discontent may not all be in the onlooker's imagination; the workers seem discontented.

If, in spite of its drawbacks, the second factory finds a profitable market for its products, then the first will command a rent roughly equal to its advantages. We need feel no surprise at the succession of twenty-five per cent dividends paid to the shareholders.

## Summary.

It comes to this. Economic rent is the money measure of the advantage one producer has over another. Applied to farming it equalizes the profits of farmers so far as those profits are not due to the skill and energy of the farmer but to his command of better land than his competitor. There is not enough good land to satisfy all who would care to use it. There is, among farmers, therefore, a bidding against one another for it : those who wish for the land must pay a price for it, or lease it from its owner. The limiting of supply—a limitation brought about by the sparingness of nature, not by the machinations of man—enables a kind of monopoly to be established. Certainly, even in our own thickly-peopled country, there is more cultivable land than is actually cultivated, or at present prices could be cultivated. What is limited is the “better” quality ; and for this a rent can be exacted. The land or the capital most unfavourably placed among those actually employed pays no rent ; and it is that land or capital that settles the price of the wheat or whatever other crop is in question.

Rent is no cause of value : it is the price of a privilege ; it arises because inequality of returns confers on all, except the marginal producer, an extra gain. Rent simply equalizes the profits of different farming capitals by enabling the landlord to take to himself all these extra gains due to the land's having advantages not shared by all. If, by a stern self-denying decision—on the ground that, since no one made the soil, no one has any right to a revenue from it—landlords were to forego their rent, they would only transfer it to the farmer without benefiting the buyer of bread. The existing population would still make it necessary to till the soil least responsive, that which pays no rent but which determines the price.

## CHAPTER XII

### THE ESSENTIAL FACT OF EXCHANGE

*“The Stage-coach, slow-rolling under its mountains of men and luggage, wended through our Village: northwards, truly, in the dead of night; yet southwards visibly at eventide. . . . It came on made highways, from far cities to far cities; weaving them like a monstrous shuttle into closer and closer union.”*

#### We Live by Exchanging.

LUCKILY for ourselves we live in a world that constrains us to work in order “to earn a living”—that curious phrase that sums up for most of us a great part of our working life.

In our wearied moods we may contrast our hard lot with the apparently care-free existence of the bird or the butterfly, flitting through life without thought for the morrow or consideration for to-day. But, indeed, we are better off than they, even as regards material well-being. Nature provides a feast for the birds of the air and the beasts of the field; but their share is the amount each can grab and exclude others from. Nature provides a feast for us, too, if we are willing to co-operate with our fellows in making it ready for consumption.

“Nature red in tooth and claw” is the keynote of the first, of the life of the bird and the beast; in the second, in the working life of man, though competition is not absent, the essential fact is help, co-operation. For man, alone of living creatures, *exchanges*. *Homo homini lupus* (a man is always trying to cut his fellow's throat) is no longer true, if it ever was.

#### Indirect Satisfaction of Needs.

We satisfy our constant or our recurring needs not by fighting with other men for food and raiment, but by

working for these other men in order that they may provide for us. In a modern complex state we satisfy but the tiniest part of our needs by our direct exertions ; we satisfy the overwhelmingly more important part by doing service that others may do service for us. By our service we obtain papers or coins that entitle us to a share of the good things available, of the services of other men or of the commodities in which those services are embodied. We do not need words to say to the Hindoo whose tea we want, or to the Minneapolis miller whose flour sustains us, " Do this for me and I will do that for you " ; we say it effectively in our acts.

We live by exchanging. We are all merchants, and our main concern is that we shall prosper in the exchange : that for our services we shall get much purchasing power, much command over the service of others ; and that a great wealth of commodities shall be at hand upon which we may exert this purchasing power. We should like much money for our services ; and we should like the money " to go a long way," to command much of the commodities in which are embodied the services of others. We would, in other words, have our services highly valued in comparison with the services of others. That is why we train ourselves so that we become more expert workers, why we study even unattractive subjects, why we willingly submit to drudgery and privation in order to gain experience.

It is not invariably obvious why one worker should get more of this world's goods than another does ; and we are at times tempted to think there is no justice in the distribution of wealth, that it has little reference to the merit of the recipients. There used to be a saying in the Army that a subaltern knew nothing and did everything ; that a captain knew everything—or thought he did—and did nothing ; a major knew nothing

and did nothing ; and the colonel helped the major. When we consider seeming anomalies a little more closely, however, we begin to see the reason of them ; and we are at length willing to concede that a worker usually gets pretty well what he deserves. His services to his fellows are rewarded by a reasonably comparable amount of services for them.

### **Exchange is Co-operation.**

We live by co-operating. And the farther this co-operation—which from varied points of view we may call division of labour, or trade, or commerce, or exchange—is developed, the greater is the stream of goods accruing to a community in return for its services to the rest of the world. Looking at what civilization has done for many we are sometimes indignant that it has done so little for others ; yet perhaps Adam Smith's contention is abundantly justified. Through the great fact of exchange, through the propensity of man to truck and barter, the humblest worker among us is well accommodated.

“Compared, indeed,” says the great thinker, “with the extravagant luxury of the rich, his house and table are poorly furnished. Yet it may be true that the accommodation of a European prince does not so far exceed that of an English peasant as the latter's accommodation exceeds that of a savage chief, the absolute master of the lives and property of ten thousand naked savages.” Which among us, however ingenious and vigorous, however proof against fatigue and the vagaries of the weather, could long provide for himself ; without the help of others we can hardly think of a more hopeless being than a civilized man or woman. Every one of us is involved in the mighty current of exchanges. We English are certainly a nation of shop-keepers, of

traders ; but, then, that is no disparagement and no distinction. For the French and the Swiss, the men of old countries like China or of new like Australia, are also nations of shop-keepers and live by exchanging.

The idea that dominated the thoughts of the earliest economists was the rather doleful one that as population increased there would be an ever greater struggle for subsistence : it is food, not births, that determines population. They thought, and rightly, that the well-being of man is conditional upon the winning by improvement of its race against population. The powers that science, in the last century, has placed at man's disposal seemed to have made all fears on this account groundless. According to some of our best minds the time when food supplies will be more and more unattainable is, however, simply postponed. Meantime we go on gambling upon a continuance of the strange manner in which we now live, drawing upon distant lands for our supplies of essential things and thinking to assure them in that our own products will be always certain of finding eager buyers.

### We are all Traders.

The exchanging function is more prominent in the work of some than in the work of others. The retail shopkeeper is incessantly occupied in buying and selling. The wholesale merchant, too, clearly obtains his living by transferring goods from those wanting them less to those wanting them more. Other functions doubtless are performed. The retailer may add the final touch to the goods he sells ; the butcher certainly separates the meat and hands it in convenient portions to his customer. The timber merchant of London helps the Swedish owner of forests to find a market for his commodity, and helps the London builder to obtain

the material needed for the housing schemes in progress. Yet, though not so prominent in other occupations, exchange is always present in our modern complex society. When the workman's wife spends his wages, that is simply the last of an infinite series of exchanges, of bargains and contracts. The slow and painful progress from a savage to a pastoral, and then to a manufacturing and trading community is, in large measure, due to the development of exchange.

When the primitive tailor no longer troubles about making his own boots or building his own house, he has left the savage state far behind. By exchanging he is able to confine himself to a special occupation in which his inherited or acquired skill is of service. Exchange, that is, enables men to specialize. And it enables localities to specialize, too: not only do the most fit persons produce the necessities and comforts of existence, but the most fit places. We should be ill-advised in trying to compete with the wines of France by growing grapes in forcing-houses at great expense. Far better that we buy from our neighbours the wine and silk and the artistic goods peculiarly theirs; and far better, perhaps, for France to buy from us, with our less genial climate that has constrained us to industrial pursuits, the iron and steel goods in which we may yet be supreme despite the fact that our position is roughly challenged.

The trader organizes the productive powers of the world; and, through his able organization, an enormous increase of production is here. There have been many proposed definitions of man: he is a tool-using animal, a laughing animal, a cooking animal, and so on. Perhaps we may call him the trading animal and attribute his superiority over the rest of creation to this propensity of his to exchange, to barter his services for the services of others.

### Trade is now Continuous.

The fact that a person's living depends upon exchange is more obvious in respect to the professed trader than in respect to the carpenter or the miner, the teacher or the doctor. The trader could certainly not live if trade died. But, then, neither could the carpenter nor the miner : at all events, one could not live by making chairs nor the other by winning coal. Like the trader, each is dependent on exchange. The dependence is only more obvious in the one case ; it is real enough in the others. So with nations : some are more strikingly dependent than others. Was there ever a people so dependent upon water-borne trade as we ourselves are ? We look for our provisioning, not only for those luxuries with which we might well dispense but for our essential supplies, to countries overseas.

The wheatfields providing our staple food are in another hemisphere, the fibre that feeds our premier industry is gathered by alien races under another government. Once there was little buying and selling among us ; the great interest of life was whether the harvests of the fields within reach or of the waters accessible to fishermen were to be niggardly or bountiful. Fairs there were at certain church festivals, gatherings like the one that Carlyle describes : "The grand summary of Entepfuhl child's culture, where, as in a funnel, its manifold influences were concentrated and simultaneously poured down on us, was the annual Cattle-fair. Here, assembling from all the four winds, came the elements of an unspeakable hurly-burly. Nut-brown maids and nut-brown men, all clear-washed, loud-laughing, bedizened and be-ribanded ; who came for dancing, for treating, and if possible for happiness. Top-booted Graziers from the North ; Swiss Brokers, Italian Drovers, also top-booted, from the South ; these

with their subalterns in leather jerkins, leather skull-caps and long ox-goads ; shouting in half-articulate speech, amid the inarticulate barking and bellowing. Apart stood Potters from far Saxony, with their crockery in fair rows ; Nurnberg Pedlars, in booths that to me seemed richer than Ormuz bazaars ; Showmen from the Lago Maggiore ; detachments of the Offscourings of Vienna vociferously superintending games of chance. Ballad-singers brayed, Auctioneers grew hoarse ; cheap New Wine flowed like water, still worse confounding the confusion ; and high over all, vaulted, in ground and lofty tumbling, a parti-coloured Merry-Andrew, like the genius of the place and of Life itself."

Such periodic gatherings of exchangers are quite inadequate for the supply of a modern industrial community ; we must be assured of a constant stream of supplies, of food for our people and food for our factories. Should this stream be diverted, should it be temporarily frozen, as when during the Great War only tiny tricklings reached us, we should be in sorry straits. In ordinary times the stream does not falter.

We have the whole trading world open to us ; a deficient harvest in the Argentine does not mean privation from want of food, it means simply a diversion of the wheat ships to Canada or Australia or the Near East.

### A Difference in Method.

Without our being called upon to make arrangements, and solely by the efforts of the commercial community to make profits, a steady and cheap supply is assured. But it is assured on two conditions. The first is that the paths of the sea may be secure, and that speedy and capacious vessels are available to cross them. The second is that we keep on making what other peoples will buy.

We sought and found prosperity by trade. We gave

up the relative certainty of agriculture ; we no longer depend upon factors close at hand ; our corn fields are not, to use Bismarck's phrase, under the range of our own guns. A century ago our chief concern was whether the grain sown in spring would yield a manifold increase by the autumn ; our chief concern now is that trade should be brisk and that our merchant ships, carrying on this trade, should cross the seas unmolested. The burden placed upon us to maintain a navy equal to all possible calls upon it is a kind of insurance premium, guaranteeing us against the loss of what some assert is but a precarious prosperity, based as it is on foreign commerce. We have, for instance, Professor Soddy's warning<sup>1</sup>, and are bound to attach much weight to it. Here it is—

### **The Scientist as Economist.**

“ Pre-nineteenth century man lived on revenue. Present-day man augments the revenue within certain well-defined limitations out of capital.

“ All forms of energy previously utilized by life, with one or two minor exceptions, as tidal energy and that of hot springs, were forms of the solar revenue. Wind-power, water-power, and wood fuel are parts of the year-to-year revenue of sunshine no less than cereals and other animal foods. But when coal became king, the sunlight of a hundred million years ago added itself to that of to-day and by it was built a civilization such as the world had never seen.

“ The fundamental fact underlying this civilization is that whilst men can lighten their external labours by the aid of fuel-fed machinery, they can only feed their internal fires with new sunshine, and then only through the good offices of the plant. The vegetable world alone

<sup>1</sup> “ *Cartesian Economics.*” By Frederick Soddy, M.A., F.R.S. (London : Hendersons).

can transform the original flow of inanimate energy into vital energy. The animal, as yet, is constitutionally incapable of effecting this transformation.

"The technical features of this subject are not without significance. Whatever the origin of the energy, the penultimate step must always be its storage by the plant, precedent to its use by animals for animal food. It is possible to draw upon the energy of a waterfall and to store it up in various chemical compounds by electro-chemical methods, and in this form to supply it as a fertilizer to the plant. Increased crops are so produced supporting an increased population. The reversal of clock-winding has been consciously achieved. The falling weight of Niagara's waters work the man. There is no technical objection to utilizing the energy of coal in the same way, other than that of prime cost. But for practical purposes it is true that the capital store of energy in fuel is not yet utilized for the life-use, but only primarily for the labour-use of energy by life. The life-use demands the intermediary of the plant, and though coal was once alive it is long since dead. The laborious and wasteful travail through farming and agriculture has once again to be gone through. In spite of the striking advances of the past century, the agriculturalist, peasant and farm-labourer, form the dominant economic class, and will remain so until some new discovery of science deposes them. It is suggested that this is one of the least obvious and yet most fundamental facts of economics and social science at the present time.

### **King Coal.**

"It certainly has not been sufficiently realized by economists, particularly in this country. In the flamboyant period of the utilization of the capital store of energy-in fuel which is now closing, so far at least as

this country is concerned, we could and did by machinofacture make almost every sort of commodity and all sorts of labour-saving machinery in exchange for the food which we could not so make and did not make. The population of Great Britain rose on account of this exchange of capital for revenue, of factory products for food, from 10.5 millions in 1801 to 40.9 millions in 1911. Whereas in Ireland, which has not coal, it fell from 5 to 4.3 millions over the same period.

“ By this process of exchange of factory products the whole world gradually drew more and more for its labour-use upon the capital energy of fuel, and used it to widen the area under cultivation and to transport the harvests from the most distant regions of the globe, and so indirectly augmented the revenue of sunshine upon which it is still entirely dependent for its life-use.

“ But this is a very passing phase. New countries grow old. Their populations tend to expand to the limit of their food supply, and their industries and manufactures become developed by the aid of their own resources. For a double reason, therefore, the flamboyant period of prosperity through which Great Britain has passed is destined to be short-lived. ‘Imperialism’ marks its final bid for survival.

“ Coal is the real capital, out of the consumption of which the capitalist civilization has been built up, but, as regards the means of livelihood of the swollen population that has accompanied its exploitation, its use in this respect has been indirect and will cease. This is the great paradox of capitalism. It is capitalistic as regards the accessories, conveniences, and luxuries of existence. As regards its necessities it is still, to coin a word, *revenual*. Even Adam Smith could say, ‘When food is provided it is easy to find the necessary clothing and lodging.’

"To-day, by the development of mechanical power, it is vastly easier than then. But, once this has been done, all it can do to develop new countries and increase the food supply, it can meet the demand for bread only by offering a stone. True, by the advances of chemical and biological science, by the development of agricultural chemistry and the breeding of better brands of wheat, much may be done, but scarcely as much as will provide for the requirements of a four or five-fold increase of population.

"The industrialized countries are, with an enthusiasm reminiscent of a lunatic asylum, turning out an ever-increasing plethora of mere factory products and sending them forth to compete in ever-shrinking markets in exchange for food, and are pouring forth an ever-increasing stream of armaments to fight amongst themselves for markets. The only goal in sight is war and yet war, the blowing up of the plethora and the permanent devitiation of the stock of the white race, at the time, too, when, by reason of failing fecundity, the prospect of its having to fight about something other than markets is becoming evident."

### **Exchange brings Supplies.**

We get the necessities and comforts we need through trade by means of exchange. The bread and meat for our people and the raw materials for our factories are not sent here out of charity, or as a tribute from subjected races. Unlike imperial Rome, which for some time flourished with a fictitious prosperity on the taxes wrested from conquered nations, we have not a single tributary state. And foreigners are not so foolishly generous as to send us cargoes of food and raiment, and get nothing in return.

The Second condition of our obtaining the supplies

needed for our closely packed people is that we make goods or perform services for which other people are willing to pay. Our supplies come as the results of commerce. We, therefore, are keenly interested that the output of our factories and workshops should be such as will find ready sale ; and that we should still retain the power of doing for other peoples these services which at present they seek so eagerly. So long as our workers are skilled and intelligent—so long as their inherited aptitudes are adequately trained in school and technical college—we need not doubt about having at our disposal the resources of the world.

That we specialize and produce but a few things is immaterial provided that we create such utility as other peoples are prepared to pay for at a great price.

The cotton fibre, that costs the Bolton spinner eight-pence a pound, is turned by him into the finest thread commanding many shillings. And being transformed into delicate muslin, with which beauty can adorn herself, the price commanded may well be a hundred times that of the first material. So with our steel industry. Cargoes of iron ore at a few shillings a ton are constantly reaching Middlesbrough to be smelted by means of Durham coal and lime. Some of this rude matter extracted from nature's treasure-house ultimately becomes, in the shops of Sheffield, tiny steel springs worth their weight in gold.

### **Dependence May be Too Absolute.**

That there are perils in dependence upon outside factors we need not deny. It is proverbially foolish to put all one's eggs in the same basket.

Other competitors may arise—Japan or India or the United States—and wrest from us our cotton industry, one of the means whereby we feed ourselves in the

factory. Already there are not wanting other industrial areas—that round the astonishing town of Pittsburg, the busy hive in the coal region of Belgium, the Ruhr Valley itself, eager to supply the markets of the world with machinery and other steel goods. So far, however, our gamble in giving up the basis of agriculture and confining ourselves to industry and trade has been successful.

The ability of our merchants to find markets and of our manufacturers to supply those markets effectively has made possible a fuller life to a greatly increased populace. We once had for our consumption so many bushels of wheat gained by toil in the fields ; we now have many more bushels through work in factory or office. And there appears no real reason to feel despondent in regard to the continued ability of our people to find markets.

### **The Trader Constitutes the Market.**

Trader and market are correlatives ; one implies the other, each develops along with the other. The trader is, in fact, the market ; and when we speak of an extension of the market we mean an increase in the number of those between whom bargains are made. In these days of what may without exaggeration be called world-markets, when cable and telegraph and telephone link up the dealers of all commercial communities and bring about a speedy adjustment of prices, it is hard to realize the primitive market. A little thought upon it will not, however, be misapplied ; and our reasonings upon present-day conditions may well be clarified by a study of earlier markets.

The essentials remain the same. When what we are pleased to call civilization developed, occupations became ever more specialized, and what we know as industry—rather unfairly distinguished from the tilling of the

soil—began to occupy a greater number. For easily understandable reasons the workers in a particular craft would tend together ; better training could be obtained, mutual help and protection were possible ; perhaps the locality was suited for the special work. Most important of all, from the worker's point of view, the people who could supply the farm produce would know where to come in order to exchange for the product of the forge or the loom.

A market would arise. Peculiar privileges were attached to it ; it was a place of peace situate, the name would suggest, on the march or boundary between districts ; in later times the Church took the market under its special protection, and there was set up the market cross. From the earliest days trading and peace have been associates. This was so when men bartered, exchanging commodity for commodity. It is still so when exchange is indirect, when one commodity is sold for money and another commodity is bought for money ; a roundabout way, certainly, but more speedy than the straight way, “since it does not always or easily happen that, when you have what I want, I, on the other hand, have what you are willing to accept in exchange.”

### **The Publicity of a Good Market.**

Precautions were taken to ensure, as far as possible, that there should be no trickery in the market. Publicity of market dealings would seem to imply fairness ; and in Saxon times bargains had to be made before credible witnesses. And any sale at a price over twenty pence must be in open market, in the market overt, which even to-day grants a buyer the peaceful possession of the goods he has bought—though maybe these had been stolen by the seller. In the periodic fairs of the Middle Ages bargains took place in open booths erected for a definite time. We read, for instance, that fish—

then an important foodstuff, partly because of religious injunctions, partly from a lack of fresh meat—was not to be sold during the night, and that all fish brought to market had to be unpacked and exposed to view.

The publicity obviously would tend to bring about what is nowadays looked upon as the essence of a good market, a single price. No seller could get an exorbitant profit at the expense of his fellows, no buyer would be forced to pay extravagantly for his supplies. Competition would be effective: sellers, confronted by the visible supply and unwilling to retire from the market with their wares unsold, would moderate their demands; buyers, seeing others in the market and reluctant to leave with their wants unsatisfied, would pay an adequate price. Also devised to prevent secrecy of dealings were the limitations of place; wheat could be sold only in the wheat market, wool in the wool market. The regulations about the Stourbridge fair, held for centuries year by year in a field near Cambridge, are typical. It was proclaimed on the 4th of September, opened on the 8th, and trade went on for three weeks. If corn were not cleared from the fields by the 24th of August, the traders could destroy it in order to erect their booths; if the booths were not moved by Michaelmas Day, the owner of the field could destroy them. The fair itself was divided into streets, like the Bread and Milk Streets where old London had its market or Cheapside, each allotted to a special commodity.

### **A Changed Point of View.**

The points of contrast between an early and a modern market are as instructive as the points of resemblance. Incessant changes in price, not merely from day to day but from hour to hour, mark the wholesale market of to-day; in earlier times there were earnest efforts to

fix retail prices. Economic forces came, as they were bound to do, into play, however, in the wholesale markets. The price obtained at a great fair was taken as decisive of the price that should rule until the fair came round again. "How a good yoke of bullocks at Stamford Fair?" asks Justice Shallow. For on the price ruling there depended the price at which he could sell his cattle during the year. The price of bread was regulated according to the market price of wheat; the price of beer according to the market price of malt. But the market prices were, almost inevitably, competitive prices.

One great contrast between the old market and the new relates to speculative dealings. The out-of-date term *regrating*, meaning the buying at one price in order to sell in the same market at an advance, signified a process not only looked upon with disfavour but actually punished by law. We are to-day inclined to look upon the speculative dealer as performing a useful work, steadyng prices to the benefit of the consumer; and though he makes a profit yet distributing goods more cheaply than the producer can. *Forestalling*, the buying of goods on their way to market, was rigorously prohibited. Nowadays, with probable advantage to the community (for thereby a steady supply is assured), the dealer in futures buys the cotton or the wheat before it is planted. *Engrossing*, too, the buying in bulk to sell at an advance retail, was condemned; the modern grocer, the descendant of the criminal engrosser, is now recognized as fulfilling a useful function in our society of mutual co-operation.

### The Modern Trader's Responsibility.

The highly organized modern market, the doings of which are recorded for whoever wishes to learn them, is

marked by publicity. One definition of a market emphasizes this fact : a market consists of a number of buyers and sellers who have accurate knowledge of the conditions governing a commodity and are at perfect liberty to transfer their custom, the seller to seek another buyer, the buyer to seek another seller. Now that credit and electricity have broken down the barriers between markets we may eliminate, in our definition of a market, any reference to a locality. As distinct from the market place or the medieval fair, the modern market is practically unlimited in time and place. As commercial knowledge increases, as transport facilities bring places nearer in time, as modern methods of storage guard a trader from his former obligation of selling a surplus at a ruinous loss, so commodities tend to be exchanged in more even relation to their cost of production.

And this is obviously the just method. The trader makes it his concern to learn what the prospective demand is likely to be ; and by his orders to the farmers or to the manufacturers he directs the productive resources of mankind accordingly. His function is a responsible one. If he and his many fellows give too lavish orders because demand seems brisk, he may produce a wasteful glut ; if he lets his stocks run down because the market is against him, he may cast a section of the community into idleness. Upon the trader's accurate interpretation of the market the manufacturer depends ; and upon the manufacturer's ability to provide what the market requires depends the continuous employment of the workers.

### **The Wholesale Market.**

We are usually no part of the market on which indirectly we depend for our supplies : those market

reports that indicate the varying prices of tea and wheat and bank shares and the like have, for most of us, but a remote interest. We may note that the price of salmon at Billingsgate is two shillings a pound ; and it is quite possible that the discrepancy between this price and the six shillings we need to pay strikes us as exorbitant. We may note that flour has fallen a shilling a bag and wonder that no effect has been produced upon the price we pay for our loaf. The wholesale markets, however, to which these reports relate, are very different things from the retail shops whence we obtain the bulk of our supplies. Prices in the first are fixed as the result of keen bargaining between sellers fully alive to all material facts, and buyers also quite cognizant of the conditions relating to supply and demand. Prices in the second respond very slowly to alterations of prices in the wholesale markets.

That we shall be affected by the ease or the difficulty with which supplies—of wool, of wheat, of rubber—are obtained in the wholesale markets is quite certain. If the market quotation for rubber goes up and up, we shall shortly pay more for our rubber heels and our bicycle tyres. Many frictions have, however, to be overcome before the wholesale market makes retail price change ; and meantime we can take but an academic interest in the report. We can read it as an item of news, an item to which—though of more real importance to us than the cricket scores—we rarely give much time.

However cursory a reading we bestow upon the report, though, one curious fact emerges. The reports are invariably written from the sellers' point of view. Markets are bright, brisk, cheerful, of good tone, strong, whenever prices are tending upwards, when accordingly sellers are in happy state. Markets are depressed, dull,

inactive, weak, when prices tend downwards, and sellers lose their looks of content.

### A Typical Market.

In the market—the competitive market to which the report refers—the values of things exchanged are settled. Consider the process a little. A Liverpool cotton broker has orders from a Bolton spinner to buy a hundred bales of American middlings. The broker is anxious to do the best he can for his principal ; not alone the desire to earn his commission adequately, but the spirit of the chase, too, impels him to try to make the best possible bargain on this particular day—to get the required cotton at a price below what others have been constrained to pay. Will he buy at the opening price, or the closing price, or some point intermediate ? Of course, we cannot answer ; we have not his experience and his expert knowledge to guide us. He will know that the market closed weak on the day preceding, that prices were down five points, had fallen by five-hundredths of a penny a pound. Will he deduce that the fall will continue and that it is better to wait, or will he think that the set-back to the sellers has been but temporary ? For he knows that many buying orders, attracted by the published prices of the day before, have come in, and that many sellers have withdrawn from the market. He has had reliable reports upon the output of the cotton belt : circumstances innumerable may influence his decision.

Here, for instance, is a typical shorthand account of the rapid changes during a single day—a shorthand account because the trader, with his time-saving propensity, seeks to convey much information in few words : “ American futures opened six to nine points lower, some liquidation taking place under the influence of the

improved weather conditions in the cotton belt. The market improved sharply later in the morning owing to trade buying, the increased spot demand, and the reduction in the bank rate. At mid-day values were four points higher to three points lower. After a further moderate gain in the early afternoon, due mainly to a scarcity of sellers, the market eased off owing to disappointing New York cablegrams and favourable weather news, but towards the end a recovery took place on local and Manchester buying, with spinners calling freely."

### Dealings in Futures.

Examine the report a little. "Futures" is the portmanteau term denoting goods to be delivered some time after the contract of sale. "Future goods" is the legal term. The cotton to be picked in August has already come upon the market in March, so that crop prospects in the growing regions are of interest to those who have bought and to those who have undertaken to sell. The first have bought at a price below what they think, or guess, or wish, the price to be when the goods are delivered. They are bulls eager to toss prices aloft; but if the harvest promises to be an exuberant one with consequent low prices, they sell the cotton they have bought lest prices go still lower. This is the "liquidation" spoken of: the bulls were "cutting their losses." The second (the sellers of "futures") have decided upon good grounds, or they hope upon no grounds at all, that prices will fall so that they will be able, without spending much, to fulfil the obligations they have undertaken. They are bears and would willingly, with potent hug, press prices smaller.

Clearly, the market for futures affords abundant chance of gambling, of what is virtually betting upon the trend of prices; a contract for sale of "futures" often

enough has no transfer of property in view. One party wagers that a price three months hence will be higher than it is now, the other party that it will be lower. It is not which horse will have its nose in front of the other but which price, present or future, will be higher. Such wagering has become so usual on a market like the Stock Exchange that it has framed a set of terms for itself. The bull, for instance, whose anticipation or hopes have been disappointed, and who is wishful to give the stock another fortnight in which to rise in price, pays on the settling day for the privilege of postponing the transfer of the stock ; the bear, too, from whom prices have climbed, defers the settlement, and he also pays for the privilege of postponement. The gambling debt paid by the bull is a *contango*, a slang word akin possibly to *contain* (check or stop) ; the gambling debt paid by the bear is a *backwardation*, a hybrid word made on the model of retardation.

### **Effect of Bank Rate.**

Why should a reduction in the Bank Rate make prices rise, make the market more cheerful from the sellers' point of view ? The Bank Rate states the minimum interest charged by the Bank of England for advances on good paper, on bills of exchange, for instance, that are backed by the credit of sound parties. The market rate, at which traders and manufacturers can get advances and thereby obtain increased purchasing power, follows closely the Bank Rate. It cannot be higher ; for a borrower of good standing would then go to the bank. It cannot long be appreciably lower ; for the cash reserves upon which the credit operations of the banks are based are built up on legal tender obtained from the bank.

The lower rates ruling enable manufacturers the more

easily to turn future property into present means of purchase ; and they will be prepared to buy more freely. The manufacturer is making in anticipation of the wants of the community, is laying the community under an obligation. The community will, however, shoulder the obligation only when goods are ready for consumption. The banker enables the manufacturer to discount this future debt ; and if the terms of discount are easy the manufacturer is prepared to increase the credit afforded to the community. He extends his operations, buys more cotton now or agrees to buy in the future ; and his operations urge prices upwards.

### Why Nations Trade.

It is only rarely—as when the British Government entered into bartering transactions with the Russian Soviet Government—that nations can really be said to trade. Something like this occurs, maybe, when the great Department Stores of London, economizing in face of the keen competition of multiple shops, combine to send a single buyer abroad charged with a diversity of commissions. But, as in domestic trade, so usually in foreign trade, an individual exchanges with an individual, an Englishman with a Frenchman ; and exchanges because both are benefited. Each gives what he wants less for what he wants more. Some difference, though, we may note between home and foreign trade.

This difference consists in the fact that, within the borders of a single political unit, the agents of production can be fairly easily redistributed as convenience and profit dictate. If the Tyne has decided advantages over the Thames for the building of ships, none in control of capital will establish a shipbuilding yard on the southern river ; if a factory worker in Belfast learns that he can in Barnsley have access to better machinery and earn more,

then he will be inclined to transfer himself and his family to Yorkshire. There is, in other words, within a country something like mobility both of capital and of labour so that the decisive reason why industries become localized—why making of calico takes place upon a stupendous scale in south-east Lancashire, why cutlery for the world is made at Sheffield—is the natural aptitude of the place for the particular industry. For natural aptitudes, “land” that is, cannot be transferred. It is, roughly at any rate, right to say that values in the home trade are decided by cost of production.

### **Mobility of Labour and of Capital.**

The mobility even at home, so far as labour is concerned, is by no means absolute. It is something of a wrench when the worker uproots his family from the familiar place. A greater clog upon movement is the expense that must be met. The doubt about “making good” in the new place, though promises are specious and favourable examples not few, ever dogs the worker—who has by hard experience been taught to look upon unemployment as the most grievous of burdens. A cynical writer goes so far as this, “The lower people everywhere desire war. Not as unwisely; there is then a demand for lower people—to be shot.” Capital is, true, unfettered; it runs to the profitable undertaking as freely as water runs to its own level. It is immaterial to the capitalist whether his capital is earning dividends upon the railway on which he regularly travels or in the chemical works that he has never yet seen in Widnes.

Before the Great War came to revive and intensify national prejudices and animosities, there was almost absolute freedom of movement for capital even among nations. We might almost have spoken, so far as the ordinary business of life was concerned and apart from

the rivalries of courts and princes, of the United States of Europe. So closely were the countries linked by trade, so freely did capital and even labour move independent of political boundaries. Capital in particular was, and now is, cosmopolitan ; a man links his fortunes with undertakings at the other end of the world, and confidently depends for payment of his quarterly dividends on the good faith of nations or of town communities alien from him in language and institutions, in sympathy with him, however, because each derives benefit from the other.

Labour—at all events such of the human factors as must be where production takes place—is obviously less freely movable. The work of organization may, indeed, be done largely in London, though the plantation may be in Malay or the factory in Birmingham. But the worker engaged directly on the article must be where that article is. In our discussions upon the relation between capital and labour we must not lose sight of the fact that the first has an enormous advantage in that, failing to get its price in one place, it can fly, without expense and without delay, to any place in the world where it can be profitably applied. Labour cannot repeat Pistol's vaunt, "The world is mine oyster." Capital can. "For long years had the poor Hebrew painfully toiled, baking bricks without stubble, before ever the question struck him with entire force : For what ? For Food and Warmth ! And are Food and Warmth nowhere else, in the whole wide Universe, discoverable ?" But to most workers the question either never comes, or comes too late.

### **Immobility of Labour.**

The comparative immobility of labour, together with the varying aptitudes of regions, brings it about that

things continue to be produced better in one place—with less expenditure of capital-labour effort, that is—than in another. And the rather curious result emerges that we may import a thing though we could make it cheaper ourselves. We wear boots made, not as reason would seem to dictate, by the shoemaker in the next street, but in Northampton ; so, too, we use kitchen utensils on which the Japanese have paid carriage half-way round the world. For we obtain these things by exchanging what we can make cheaper still ; the doctor does not shovel away the snow that impedes passage to his consulting room, nor dig his own garden, though possibly he could do both more effectively than the men he engages can. The doctor is more profitably engaged otherwise ; an hour of his work suffices to buy many hours' work of men less sought after.

### A Concrete Example.

So we might, by cultivating beet, produce our own sugar at a less expense of labour and capital than the West Indian by cultivating the sugar cane. But, if we can make at still less expense the Sheffield cutlery that will exchange for the sugar, we are wasting effort. Better, from the economic point of view, for the West Indian to look after his sugar canes instead of trying to make his knives at home. For, again, he will get them at less expense from Sheffield.

Tom and John can both make coats, both make boots ; but Tom is the better worker at both—better in this that the same result costs him less labour in each. It is hardly likely that Tom is better to the same extent in both coats and boots : if he isn't there would be gain for both by Tom's concentrating upon the job in which he has the greatest start and by John's concentrating upon the job in which he is least handicapped.

Examine the matter as a little problem in arithmetic—Tom needs 20 units of effort (hours or days or what you will) to make his coat or his boots ; John needs 30 for the coat, 40 for the boots. Tom could make two pairs of boots, one for himself, one for John, with an outlay of 40 units ; John could make two coats for 60 units. The ability to exchange would spare John 10 units of work. And if Tom, not altruistic enough to relinquish all the gain to the less able worker, wanted himself to gain from the exchange, this could be arranged. John could devote some of the spared units to doing work for Tom, hewing his wood or drawing his water, or making him a waistcoat. At all events there is the product of 10 units to be shared between the traders. They gain materially ; they gain, too, in the kindlier feelings each has for the other.

So with trade that passes political frontiers. It is quite possible that, either because the gifts of nature are unevenly distributed among regions or because labour is reluctant to travel far in search of those regions where their efforts would effect more, one country is, compared with another, a worse producer of many things. Yet if the inferiority is less pronounced in one thing than in another, still trade will be possible and profitable.

Thus, suppose this country resolves to grow its own sugar as well as to forge its own steel. Then the knives resulting from 20 units of the labour-land-capital effort would exchange for the sugar that also resulted from 20 units of the composite effort. Cost of production would settle the value in exchange. Suppose, though, more sensible ideas prevailed and, finding that the knives could—even allowing for freight and other expenses—bring more sugar from Jamaica, we gave up the idea of growing sugar. To persist in spending

much effort when we can achieve the desired result with less is to acknowledge the wisdom of acceding to the petition of the candle-makers. They, you remember, seeking to prevent the unfair competition of their great rival, the sun of heaven, made their humble request to the State that all windows, all crevices, all openings of any sort through which the light of the sun could penetrate, should be sealed up. But common sense still exists among us, and we continue to trade with the West Indian islands. We gain in goods. The people of Jamaica have more leisure to bask in their sunshine ; for, doubtless, they can produce sugar more easily than they can Sheffield blades. Clearly, if the Jamaicans could assemble the materials for the knives and make them at a cost of the same number of units as the sugar costs, there would be no object in trading. Comparative costs—of cutlery in England and in Jamaica, of sugar in England and in Jamaica—must differ to give rise to a trade. We might put it—

England can get a dozen knives or 20 lb. of sugar for 20 units of her productive power.

Jamaica would have to use 40 units of her productive power to get the dozen knives and then they would not be the trenchant Sheffield product ; 40 units of her productive power would give her, say, 30 lb. of sugar.

Jamaica can afford to give any number of pounds of sugar up to twenty-nine, and still be a gainer, for the knives.

The motive force of the trade is not of necessity that one country can supply what another has not got, that “ Each climate needs what other climes produce, And offers something to the general use.” This, indeed, is important enough ; our dinner table would be poorly furnished but for foreign trade. The motive power is usually, however, difference in comparative costs :

England has a superiority of 100 per cent in steel, of 50 per cent in sugar. Let England produce the steel and Jamaica the sugar, and we have economic progress. For in each country the relation of Effort to Satisfaction will be less—the fraction  $\frac{E}{S}$  will be lessened.

It is suggested, you have noted, that the benefit of foreign trade lies in the imports. We get what we need at less cost. We do not welcome foreign trade because it enables us to get rid of our steel or our cottons ; these are, indeed, only means to an end, and we should be the better pleased the less we had to send abroad.

## CHAPTER XIII

### THE MACHINERY OF EXCHANGE

*“ Whoso has sixpence is sovereign (to the length of sixpence) over all men : commands cooks to feed him, philosophers to teach him, kings to mount guard over him—to the length of sixpence.”*

#### The Work of Money.

MONEY is the means by which we exchange. We do most things indirectly nowadays ; others grow our potatoes and make our boots. Money is the tool we have devised so that we may the more easily and speedily exchange our services for the services of those that toil around us, and of those far from us in time and space. Barter, the direct exchange of services (embodied or not in tangible goods), is practicable, is still practised among us ; and when a money system breaks down men are again forced to the irksome and time-wasting method of barter.

Exchange, upon which progress depends, is, however, limited and confined unless money intervenes—unless there is a ready means of comparing the products of different men and of different nations. Not that metal money, or in fact any money, need come into every exchange. No metal money need be in existence. All that is wanted is a unit of value upon which we could depend, a stable money of account. The man who had, in one way or another, served the society would have credited to him, in a banker's ledgers maybe, so many units of this money. For this credit our benefactor of society could himself, at his pleasure, obtain what he wanted—to the extent of his benefaction.

Money is an option-bearer : it gives power not over

one thing but over one of many. It allows the consumer to take his real income at the time and in the manner that suits him best. It is a certificate that the claims a man has upon the stock of goods will be honoured, and anything that is acceptable among men as such certificate is money. It may be a coin or a piece of paper, or "shoe" of Chinese silver, or any of the things that have served, and serve, as intermediaries in exchanges. If they are acceptable they are money. So far as hesitation comes into the minds of people, what is called money ceases to answer its name. Only when perfectly acceptable is money current ; only then can it run about with ease and speed among people, enabling them to help one another. The area within which the money is current may be the whole business world ; so it is with gold and with a bill on a London bank. The area may be a small one : so it is with a cheque among those who know and trust the drawer.

### **Money the Value Measurer.**

Money cuts an exchange in two. Each sale is half of the exchange ; for we do not get money to keep but to spend. The doubling of the transactions seems a waste of effort ; but the seeming complication makes easy exchanges here and now. It makes possible, too, exchanges between places far apart, and the exchange of a thing now for a thing some time hence.

For money measures values. It enables us to compare, as we compare the yields of stocks by working out percentages. There is no irritating contention to settle how much wheat shall be given for a pound of beef or for the dentist's service or for the privilege of seeing the cup final. The value of these various goods is measured in money. "Money talks" : it helps trade, as a system of numbers makes calculations easy, or as language helps

thought. The pity is that we have not yet such a unit of value as does not change, such a unit as always means the same amount of milk and honey, of corn and oil. Our gold sovereign itself would not "go as far" one year as another; our pound Treasury note has had strange vicissitudes in its power of buying the things we want.

### Instability in the Monetary Unit.

To the extent that it does change in its command over the things men want, money ceases to be "good money." For the demand for money is a "derived demand," as we say; we want it not for itself but because it puts us into the way of obtaining something else—just as the demand for bricks arises from the desire to have houses to live in. Gold itself is not constant in its command over goods. An ounce of gold has not, from the time when the Hebrews spoiled the Egyptians of their "jewels of gold," been thought worth an unvarying amount of wheat and oil and wine.

Gold may be less liable to fluctuations than most things; it does, however, fluctuate to some extent. If Labrador turns out to be a more bountiful Klondyke, gold will lose such of its value as springs from its exceeding scarceness. If all nations become, as we have, more and more habituated to the use of substitutes—notes and cheques—for gold as money, gold will lose such of its value as arises from an urgent demand. And, when we realize that the same amount of gold serves as a basis at different times for very different amounts of "credit" money, we realize, too, that the amount of money depends only remotely upon the output of the mines on the one hand and the actual use or loss of gold on the other.

The monetary systems of the world have passed, or

are passing, through a long evolution. One or more metals changed hands, in the exchanges of merchants, by *weight*. Then, to make exchanges quicker, uniform pieces were made ; and these pieces passed by number not weight, by *tale*—the weight and the quality being assumed. Ultimately this making of uniform pieces—of coins—became in our country a State monopoly. The State's guarantee of weight and fineness would alone be accepted without question, though sometimes the simple faith was undeserved. Then there was a tacit or an explicit *tarification* of the metals : how many ounces of silver should serve to buy an ounce of gold was fixed. Then, as men could rely upon others' promises, the tangible pledge afforded by the precious metals became unnecessary : money became *paper*. Yet this latest development is linked with the earliest : our paper is a promise to give upon demand, or an order to pay, or a certificate entitling one to a definite weight of gold.

### Money is a Tangible Pledge.

Money is more than a measure, though. It is a medium, a definite pledge—whether in the form of gold or silver valued for itself or in the form of *promises*—that claims upon the community will be honoured. We are willing to take money for our services or our goods because we are certain that others will be happy to take it from us in exchange for their services or goods. In this sense gold is the money of mankind. The hunger for gold is universal—“ Those that husbanded the golden grain And those that flung it to the winds like rain ” alike sought it. You may, if you choose, say that the value of gold is dependent upon custom, that if people ceased to use it as money, or as the basis of their money system, its value would scarce exceed that of copper.

For without any further output there is enough gold in the world to serve during many hundreds of years to fill teeth or to gild spoons. But value depends on custom, upon what men think ; and the custom of desiring gold is a part of men's minds. For men *know* that gold will be accepted in exchanges.

Money enables one to " save," to defer his claim upon the stock of goods. This function is consequent upon the one above ; if a man is confident that his money will, when he wishes to enforce his claim, be accepted upon much the same terms as now, he will not waste it at the moment. True, if the buying power of his money was liable to be halved in a week or so—as happened during long periods in Russia and Austria—his eager wish would be to turn " money " into something else. But we speak here of money that is reasonably stable in value. The rather misleading statement is that " money acts as a store of value." But as we know, wealth is not stored ; it is not a reservoir but a flow. This year's harvest will—but for a very small part—be eaten or sown or wasted before next harvest. The better way to state the thing is that money acts as a deferred claim. We may defer our claims by storing up gold ; we may content ourselves, and usually do, with the witness of our claims in the banker's books.

### **Real Money and Money of Account.**

The real money of a people—that which passes in exchanges, need not correspond with the money of account (or bank money)—that which measures values. It did with us before the war ; for then the sovereign was both our real money and our unit of value. But at the moment we have no single coin answering to our pound *sterling* in which we measure values. Our " pound," once a pound's weight of silver, dwindled

as needy governments decreed that a less and ever less weight should serve as a pound ; became, in 1916, about a quarter of an ounce of standard gold (22 carats,  $\frac{1}{2}$  fine, that is) ; and, during the war years and after, became a changeable amount of purchasing power. The theory among the trading nations of the world is that though the real money may be silver or copper or what you will, the unit of value is a fixed weight of gold—a gold sovereign, a gold dollar, a gold franc, and so on. No gold coin may be issued in value of one unit—an actual gold franc could serve no useful purpose, nor is such issue necessary. The one thing needed for a country to keep its currency upon a gold basis is that there shall be no difficulty or delay in changing the representative money into gold.

### No Simple Way of Fixing Value.

We must note here that to make our monetary unit an invariable weight of an invariable substance does not make a stable unit of value. Certainly, while our coinage laws are operative, the sovereign, as a substance, cannot alter. The law cannot, however, settle what the purchasing power—the value—of the sovereign shall be, cannot make its decree effective upon the number of loaves of bread or yards of calico it shall buy. This is what matters. The trader is only indirectly concerned with the number of monetary units placed to his credit ; he is directly concerned with the commodities he can get for these units. The worker, whose services make the employer his debtor, is not anxious that the debt shall be big in number ; he is anxious that it shall allow him to get much food and clothing, many of the amenities of civilized life. When the worker makes a bargain for wages there is an express contract that he shall receive each week an agreed number of monetary

units. The implied contract, that these will afford him a living, is the more important ; and the schemes for stabilizing prices have their origin in the wish to bring about certainty in the implicit contract. By manipulation of the currency—by issuing more money when prices are low, by withdrawing money when prices are high—the State can, in fact, peg prices in general. Paper (Treasury notes) is now the bulk of our money, so that the manipulation would be easy enough. One way suggested is that when prices are unduly high, indicating that less money is wanted on the money pan of the balance or more goods on the goods pan, the Government should invite subscriptions to a loan on favourable terms. The response to the invitation would mean less money for other things, and prices would fall. The paying off of the loan—in Treasury notes—when prices were unduly low would again redress the balance. The drawback to this simple method would be that people might be inclined to believe that the Government was manipulating the currency not in order to make stable the unit of value but to get itself out of difficulties. And it asks superhuman self-denial from a Government that it should in times of exigency refrain from further issues.

### **Banking : A System of Co-operation.**

We agree that in these days it is the tiniest part of a man's efforts that are directly devoted to the satisfaction of his own needs. He satisfies his constant and his recurring needs—for food and clothing, for a share in the amenities of advanced civilization—by exchanging the income he gets, his purchasing power, for the productions of the combined toil of others. His most absorbing preoccupation is that he may exchange on favourable terms, that he may get much income for his

services, and that he need dispense little for the goods obtained by the services of others.

In other words, he wants high wages, he welcomes low prices. Both are achieved when there is keen demand for his services, and when those services and the services of his fellows are put to good effect. Times, in short, are prosperous when there is an abundance of goods for distribution, and when exchanges can be effected without the slightest trouble ; when a man may dispose of his services without delay, and when he can obtain in the readiest manner the commodities and services he seeks to satisfy life. Whatever clogs and impedes the mechanism of exchange makes for a period of scanty resources and diminished enjoyment. Energy and skill unemployed perish without return. The mill will not grind with the water that has passed ; the worker unemployed to-day has no consolation in thinking that to-morrow he will be able to sell more labour.

Labour will not keep. Nor is it greatly otherwise with capital. The machines standing idle earn no interest, yet depreciate at much the same rate as when actively employed ; they rust away nearly as speedily as they wear away. The work of the banks, then, bringing together co-operators, enabling the seller to meet and satisfy the buyer, is—now that the area of co-operation is so widened—of surpassing economic importance. That is why men look to the banks for remedy of the present deplorable state of things throughout the world. There are goods awaiting buyers ; there are manufacturers eager to make in order to supply the urgent wants of impoverished peoples. But the sellers and makers of goods seek, and they are justified in their search, for an assurance that an adequate return shall accrue to them.

If the banks again for a while shoulder\* the debt

of society to the producers of goods, all will be well ; the stream of debits and credits is partially frozen, it is for the bankers to thaw it.

### The Exchanging of Credits.

What is the primary function of a modern bank ? It is not the keeping safe of money deposited ; nor is it the lending of money. The great and beneficial work of the bank is the exchanging of its credit for the credit of its customers, the purpose of the exchange being the increase in the area of currency. A banker's obligation, his undertaking to pay, has an international currency ; a customer's obligation has a currency only among those who are assured that he will meet his obligation. His banker is one of that limited number. The banker makes it his business to know that the customer to whom he grants credit will not fail when the repayment is due.

By means of the bank's credit a London buyer may bring supplies from the four quarters of the globe ; for suppliers throughout the world will be content with the undertaking of a bank. Coins themselves are credit instruments ; we take them because we *believe* that others will take them from us in fair exchange. Bankers' advances are clearer instances of credits ; and the cheques drawn because of these credits are clearer instances of credit instruments. The banker *believes*, and has sound reason for his belief, that the person to whom he gives a deposit credit will pay it when called upon. The banker does not directly create the bank-money ; he creates the deposits on the strength of which the bearer of the cheque book creates the money.

You realize the manner in which the bank's credit is substituted for the individual's credit ? The manufacturer, \*to satisfy the demand he anticipates, seeks his

raw material and the amounts he will advance to the wage-earners. He pays by means of bank money ; to the providers of raw material his cheques go directly, to his workers his cheques go indirectly, in the form of lawful money—current coin or notes—he has obtained from the bank. The banker credits him with a deposit, knowing that sales will enable the advance to be repaid. The manufacturer, furnished with a cheque-book, is enabled to cancel his obligations as they arise.

The cheque is the bank note of individuals, and is drawn at the time and for the amount needed. Moreover, it does not, as the bank note proper does, remain for any length of time in circulation. It is almost immediately tested, not by being exchanged for gold, but through people's seeing whether the banker upon whom it is drawn acknowledges his obligation to meet it.

The cheque so acknowledged by the banker becomes an item in the mutual indebtedness of banks. It becomes, that is, involved in the clearing-house. The clearing-house is sometimes said to be a device to simplify and facilitate the daily exchange of items and settlement of balances among the banks, and a medium for united action upon all questions affecting their mutual welfare. We may, however, look behind the items (represented by separate cheques) and think of the services rendered, of which those cheques are the monetary measure. We shall thereby grasp the essential fact that the banks enable people to satisfy one another's needs. We may look upon the producer as constantly occupied in making society his debtor. But society, the community at large, will not pay the debt until the goods produced are ready for consumption. Meantime the banker bears the debts, and thereby enables production to go on unchecked.

The work of the modern bank may, thus, with but slight error, be summed up as the exchanging of credits. True, there are deposits ; surplus income is placed in a place of security. There is also actual lending of money ; but the money transactions of a bank are insignificant. Its business is to receive from its customers their evidences that credit is due to them, and to give to its customers the bank's evidence of credit. The bank exchanges, in other words, credit that has wide currency for credit that has a narrow currency.

Nor is it otherwise when debts are not created by the bankers but created by business men for the purpose by being assigned to the banker, the evidence in this instance being the bill of exchange. The maker sells to the merchant goods that will ultimately be paid for by the community, the amount to be received being therefore speculative, and dependent upon the market for the product. The maker draws upon the merchant, and by discounting the bill he is relieved from the necessity of awaiting the ultimate sale. The banker temporarily bears society's debt—or rather enables society to bear it with equanimity—and, naturally and justifiably, exacts in the shape of discount a reward for his services.

### **The English Deposits.**

We are apt at times to mistake this essential function of the bank, its exchanging its own widely recognized credit for the less widely recognized credit of its customers, by thinking that the term "Deposits" actually means what it says. Perhaps it did once, as the French *dépôts* do now ; but the deposits of an English joint stock bank represent in the main simply evidences of the bank's indebtedness to its customers. And this indebtedness has been incurred, not because the customers have put money into the bank, but because the bank has created

a debt on their behalf, this debt being balanced by the customer's indebtedness to the bank.

On the liabilities side the chief figures indicate what the bank owes to its customers ; on the assets side are corresponding debts due from its customers. On the one side are the promises of the bank to pay individuals, on the other are promises of individuals to pay money to the bank. And the very magnitude of the figures indicates that the money estimate is merely a measure of the debts : neither the bank nor its customers could pay money. The bank's deposits are book entries resulting from an interchange of credits, and their redemption at any particular time is impossible. Nor, so long as only those deserving of credit get it, is such a redemption called for. In ordinary times over 95 per cent of commercial dealings are effected by an interchange of bank credits : more appears to the credit of the seller, less to the credit of the buyer. The bank, as we know, undertakes to meet its obligations upon request in money, in what the State decrees shall lawfully terminate a debt ; and it will keep itself in such a position that it may fulfil the obligation. The amount of lawful money needed in hand is, however, astonishingly small. We could conceive, indeed, of a system that called for no legal money at all, solvent banks being merely the ledger keepers of solvent customers—a vast co-operative society built upon the banking system.

### **Credit Movements and Prices : The Quantity Theory.**

We may not be able to control credit movements ; we should, however, be able to understand what they are and what they effect.

We measure prices in pounds sterling, and owing to our habit of thinking in gold we are inclined to interpret

the pound sterling as a golden sovereign. In fact, as we very well know when we come to consider the matter, gold is not the thing of importance. Credit is the money that matters. The purchasing power at our disposal is not measured by the number of sovereigns we possess ; it is measured by the number of monetary units we can command. And the proof that we have at our command these monetary units will usually be figures in a banker's books.

Certainly, we can turn these credits of ours into such money as the law recognizes as a means of discharging debts, into Treasury notes or Bank of England notes or coin. In a far-off way the amount of money—of purchasing power—actually depends upon the amount of lawful money available ; but it is a peculiarly elastic dependence. A given quantity of gold serves at one moment as a foundation for an extraordinary amount of credit ; at another moment, the same quantity of gold serves to support a greatly diminished structure of credit. In other words, the amount of money available for purchases depends upon credit rather than upon gold.

The bankers, that is, who are able to create credits, can add to or detract from the number of monetary units available in a trading community. Or, to put the same fact in another way, they can raise or depress prices. For one of the least disputed teachings of economics is that, if the quantity of money increases while the quantity of goods for sale remains unaffected, prices rise. A sudden influx of opulent visitors into a seaside town will, until supplies have had time to adjust themselves, send up prices amazingly, of food, of house room, of the services of all who look upon visitors as their fertile harvest field. If the things for sale were multiplied as speedily as the monetary units were, there

could be no alteration in prices ; we should double the number of units in the money pan of the balance, we should also double the goods to be exchanged for that money. Credit, however, the offspring of confidence among men, needs no time or cost to produce (or destroy) as goods do ; and a credit expansion invariably precedes an increase in the amount of goods, a credit contraction precedes a decrease in the amount of goods.

### **Money and Prices.**

For, think over what happens in general. The trader whose chief function, we must suppose, is to study the wants and wishes of people and to serve up what is wanted, perceives that a certain commodity is about to command a higher price. The summer is at hand : last year was a time of great animation in the world of tennis ; already the newspapers are discussing the play and players and prospects for the coming season. There will be a boom in racquets ; and he gives lavish orders to a manufacturer. Fortified by these orders, rejoicing in the trader's acceptance of a bill payable in three months, the manufacturer approaches his banker ; and the banker grants a credit.

In effect the banker pays—with a deduction of a reasonable discount—for the racquets before they are made, before the debts incurred by the manufacturer and trader are liquidated by the public for whose delight the goods are destined. Or rather, to carry our analysis a little further, the banker has allowed the manufacturer to borrow from the community, who receives the goods. So that the community stints itself and the banker gets the interest. The maker, in his payments for his materials, and in his distribution to his workers, is laying the public under an obligation, an obligation that will be discharged only when his goods are being sold in the

retail shops. The banker shoulders the debt meanwhile and credits the manufacturer with purchasing power.

The monetary units in the hands of the wage-earners are increased ; the amount of goods for sale will not be increased for some time yet. In the race between money and money's worth, money gains, and prices rise. The effect of an expansion of credit upon prices is particularly great when the credits are raised for unproductive purposes, when neither now nor in the days to come will the monetary units called into being be balanced by an increment of things for which men are willing to pay a price. War breaks out ; and the State is constrained to go to its bankers for credits with which to pay the contractors who furnish the implements of destruction—not now of production—and the workers diverted from the making of useful things to the consumption of them. Far from there being an increment of goods to balance the credits raised, there is actually a decrement ; the relation between money and goods is more disturbed than ever, and prices spurt upwards.

### **Prices Tend to Move Together.**

When prices do show a tendency to rise it is difficult to prevent the business world from expecting a still further rise. Men hasten to lay in stocks, because they see the value of the stocks they hold constantly increasing. They represent a greater number of monetary units than when first bought. Moreover, traders are quite prepared to bid higher rates of interest for such banker's money as will enable operations to be further developed.

It becomes clear after a while that the rise of prices means only an illusory gain. Commodities exchange for commodities ; though the money—credit or currency—

effects the exchange. And though his own goods have advanced 20 per cent, the merchant is no better off when others' goods have similarly risen. When men begin to consolidate their gains there may occur a revulsion of feeling that suffices to send prices down more rapidly than they rose. Those who hold stocks find them depreciating in value on their hands, and they hasten to sell out before prices fall further. It no longer pays to borrow from the banks. Besides, bankers are, in a period of falling prices, reluctant to lend. Even if no panic among sellers intervenes prices will fall, owing to the fact that less money exists—not fewer sovereigns but fewer monetary units.

The trader who can keep his head while others around him are exhilarated by high and rising prices and incapable of their usual cool calculations, or are depressed and despondent by low and falling prices and unable to seize their opportunities, should do well. The man, however, who can go against the crowd is as rare as the man who can keep quiet at the football final. And the difficulty in business is the greater in that the very anticipation of high or of low prices has a tendency to bring them about. The hopeful mood implies greater readiness to buy, to enter into contracts, to lend that others may buy. The doleful mood has the opposite effects ; the want of confidence in the traders themselves and in others, brings about the effects dreaded.

### **Foreign Exchange : Service Pays for Service.**

There is no essential difference between the payment of debts at home and the payment of debts abroad. Nor is there more need for gold, the material and very effective claim upon services, to be used for settling foreign debts than for settling domestic debts—an immaterial claim does just as well so long as people keep

faith with one another. People earning their living in Liverpool incur obligations to people earning their living in London. These obligations confer upon the Londoners claims upon the people of Liverpool, claims that are measured, though rarely paid, in gold. But then Londoners buy from people in Liverpool, order goods through Liverpool agents, charter Liverpool ships, and book passages on Liverpool boats. Obligations incurred will pretty well balance obligations conferred ; and even if they do not actually balance, the make-weight will be small, the merest trifle as compared with the sum of obligations. The balance will be restored—the make-weight will be constituted—by a transfer of credits in the bankers' books. On the aggregate credits to the account of Liverpool people will at one time be increasing at the expense of Londoners' credits ; at another time the movement will be reversed.

### **Gold is the Make-weight.**

It is not greatly different with foreign settlements. The make-weight there is, however, not a transfer of credits but a little of the stock of gold held in a country. The overwhelming mass of obligations are set off against one another by those certificates of claims that we call bills of exchange. Within the country itself the bill of exchange has its use. Jones has sold goods to Smith and has given him credit over three months. Jones would, however, like to raise money on the debt owing to him ; a banker would not look at a book debt, so Jones draws a bill. He writes a request that Smith will pay the agreed sum at the stipulated time ; and, through this evidence of indebtedness to him, he borrows from the banker. He is able to borrow because he is able to give proof that payments are coming to him. Debt serves as foundation for debt—a debt due

for a debt owing ; the claim that Jones has on Smith settles the claim someone else has on Jones. And Jones's bank balance may be fairly stable, though his buyings and sellings are great.

### The Foreign Bill of Exchange.

So, too, the amount of gold—the international make-weight—will be in ordinary times absurdly small in comparison with the whole mass of transactions. M, a wool merchant of Melbourne, has sold a consignment of wool to L of London. Before it is sent from Melbourne, the wool becomes symbolized by a bill of lading ; and this symbol of goods in a warehouse afloat enables M to obtain payment five or six weeks before the vessel carrying the goods reaches London. He cannot deliver the wool itself ; he can make a symbolic delivery of it, can, if you like, sell his wool for a while to the banker who knows where a buyer is waiting. M makes a written request to L to pay an ascertainable sum at an ascertainable time : "At sight pay to me or my order £1,000," signing his name to the request. He is said thereby to have drawn a bill of exchange (a draft) upon his debtor. And the custom of merchants, adopted later by the law of the land, has given the bill of exchange one of the distinguishing properties of money. This is the property of being negotiable. Business is made easier, transactions are carried through far more quickly, by money for this reason—that we need not inquire how the money has come into the possession of him that offers it. If our own conduct is above board in the transactions we need not worry : the money we have taken is ours without question. A former owner might have had a claim against him from whom we took it ; he has none against us. The bill of exchange is similar in this respect ; he who takes it in the regular course of

business—honestly, we say, and for value—is entitled to payment upon it.

M, then, takes this bill to his banker in Melbourne, and the banker, knowing M to be a good man—"good" in the sense that he punctually meets any obligations he incurs—will buy it. For if L, to whom the draft is addressed, does not pay it when due, then M, who has drawn it, is bound to pay. The banker will give a little less than the nominal value of the bill, the difference being called the discount. The banker will require the bill of lading, conclusive evidence that real value is behind the bill. The Melbourne banker sends the draft and the bill of lading to his London agent. From this agent L will be able to get the bill of lading—upon the surrender of which the master of the ship will deliver the wool—by accepting (undertaking to pay) or by actually paying the bill.

The Melbourne seller is paid, as he would wish, in his own town and without delay; the London buyer pays, as he would wish, in his own town and not before he is able to trade with the goods he has bought. The Melbourne banker has at his disposal credit in London. He can now sell bills to any of his customers that, having bought English goods—cottons or woollens or machinery—wishes to make payments in London. He draws to the required amount and sells the draft to the Australian importer. No money has passed: the bill of exchange has enabled imports to pay for exports.

### **A Bill on London.**

Both bills—that of the exporter of wool and that of the Melbourne banker—are, you note, drawn on London. One or both might have been drawn on Melbourne; in practice this would rarely happen. Bills are drawn abroad and drawn on London. In other words,

someone in London is asked to pay both debts. The convenience of business has made London into an international clearing house and a bill on London into an international currency. The number of payments to be made in London is exceedingly great, and the payments are from every part of the world. The holder of a good bill on London is, therefore, sure of a ready buyer.

Almost always an export means that the credit standing abroad of a British bank will be augmented. Almost always an import means that a British bank will be asked to grant credit abroad. And the earnings from our provision of banking facilities swell our "invisble exports."

Settlement is a little more complicated when buyer and seller live under different money systems, when one measures in pounds sterling and the other in dollars. We have gone far towards uniformity in law among trading nations—the international convention upon bills of lading is a case in point—we have not yet established uniformity in national currencies: "So much of barbarism still remains in the transactions of the most civilized nations, that almost all independent countries choose to assert their nationality by having, to their own inconvenience and that of their neighbours, a peculiar currency of their own."

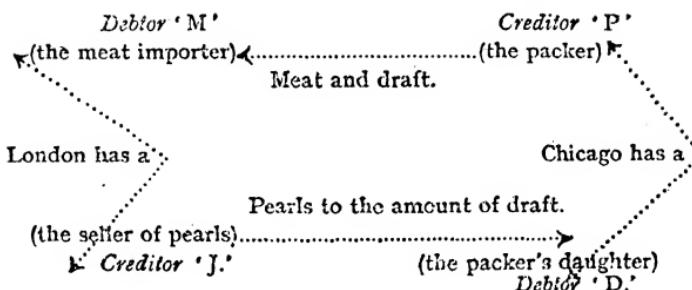
### **The Comparison of Currencies.**

The inconvenience to which Mill refers is that of having to work a sum in arithmetic when comparing prices. The Chicago packer sends his tins of meat and of milk, his tons of hams and of beef, to a London merchant. How is the merchant to pay? The packer wants dollars, and the merchant sells his goods for pounds. He could, and in certain events does—through his banker—obtain gold; could obtain sovereigns

or buy ingots of gold. He could send the specie or the bullion to America, and have it turned into dollars at the rate of one dollar to every 23.2 grains of fine gold. This expensive and tedious method is only rarely necessary. For there are certainly many who have debts to collect, if not in Chicago, at all events somewhere in the United States. All could be cheaply and conveniently settled if debts could be gathered together and balanced against credits ; and this is done by the bankers and bill-brokers. These are the reservoirs for collecting credits on places abroad ; they are the streams supplying credits for payments abroad. Those who need to pay go to the reservoirs and tap them to the required volume.

We might look upon the packer as the personification of claims on London ; we might look upon the seller of pearls in Bond Street as the personification of debts due to London. The packer spending part of his profits on presents from England gives his daughter the draft on the London merchant ; and the young lady promptly orders the pearls she has longed for since her last visit to London. There is now a debtor and a creditor in both London and Chicago, and both, under our very artificial supposition, for the same amount. If the London buyer paid for pearls instead of for canned goods, all who took part in the transaction are satisfied. For the packer's daughter has already paid for the meat by her increased filial devotion.

The bill of exchange brings this about. P (the packer) draws on London ; M (the merchant) accepts the draft. That is to say, he acknowledges the debt and promises to pay. P gives his right to money in London to D (the daughter he would adorn) and D transfers the right to J (the jeweller who provides the ornament). J collects the amount due from M.



P draws on M, hands draft to D.

D transmits to J, and M pays J.

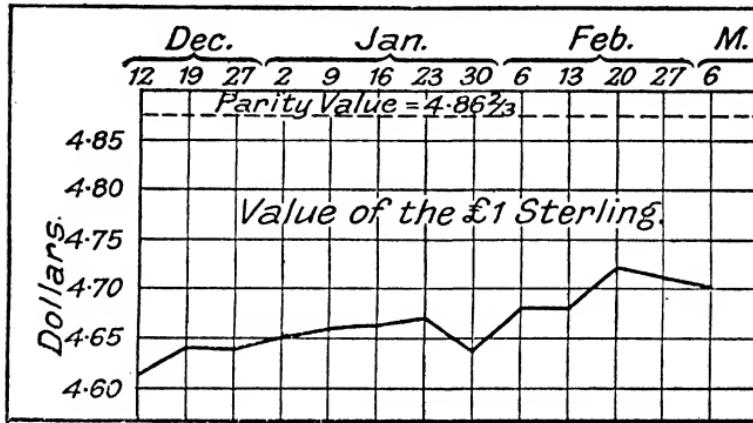
M pays pounds to J; D gives dollars' worth of affection to P.

### Disordered Exchanges.

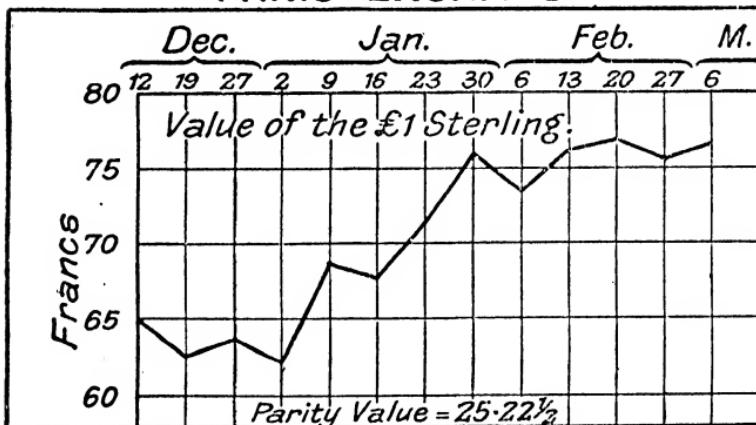
When we speak—as during the dreary years of war and for some time after we had to—of the foreign exchanges as being disordered, we mean that there is no ready method of comparison between one currency and another. Before 1914 we had the ready method. For the monetary unit was in practically all countries maintained as equivalent in purchasing power to that of a fixed weight of gold. What the fixed weight was to be the various coinage laws decided. To-day, however, the coinage laws of the great commercial countries—with the exception of the United States—are in abeyance. Our own pound sterling is no longer a definite weight of gold of definite quality; it is an indefinite amount of purchasing power. In other words we have not a coin in ordinary circulation that corresponds to our money of account, our pound sterling: “sovereign” and “pound sterling” are not, for the moment, alternative names for the same thing. The divergence between the purchasing and the value of 123.25 grains of standard

gold is slight, and is happily becoming less. We may measure the amount of divergence, roughly, by comparing the actual New York exchange with the theoretical one, the Mint Par of Exchange ( $\text{£}1 = 4.866$ ). Since

### NEW YORK EXCHANGE



### PARIS EXCHANGE



Note that, beginning with the French occupation of the Ruhr district, the divergence of the franc from parity became more pronounced: the curve rose steeply and on July 3rd, 1923, reached 77

the quotation to-day (22nd March, 1923) is 4·69½ the divergence may be taken to be  $4\frac{7}{8}\%$   $\times$  100 per cent, or about 3½ per cent. In other words, if the gold in a sovereign could buy twenty loaves the pound Treasury note could buy about nineteen and a quarter. The two diagrams on page 174 show the tendencies in the two chief exchanges.

Because we are getting back to the gold standard we are nearing the parity with New York ; because France is getting farther from the gold standard, the Present Franc is becoming less.  
Present Pound

### An Unfixed Currency.

The departure from the gold standard is much farther in other countries than in England and France ; in some countries, indeed, the unit of currency has lost all connection with gold. We speak of the mark, the krone, and the rouble ; but these names no longer denote the weight of gold they once did. Far from it. The connection with gold is of the slenderest, most shadowy ; we cannot say these units are equivalent to any weight at all since they change from week to week, and almost from day to day. And, since in fact the purchasing power of the units of currency is nowadays regulated by the elastic consciences of the politicians in transitory control of affairs, we cannot count on its stability from week to week, or even from day to day. Having cut themselves adrift from the anchor of gold the currencies are blown about haphazard by every wind of whim or caprice or ideas of expediency on the part of the various governments.

Those who are actually trying to transact foreign trade, buying or making in one currency and selling in another, feel as well as know the ill effects and daily

pray for a return to something like stability in the relations of the currencies. Everyone is hurt by the absence of ready means of comparison: the producer of goods because they go but sluggishly off his hands; the consumer of foreign goods because they come to him slowly and at a price enhanced by an extra payment for risk about the exchanges; the merchant because trade is stagnating, and because his reasonable reckoning may be overthrown by incalculable fluctuations in the currencies. He once made his profit because he foresaw what supplies would be sought and because he initiated the movements that produced these supplies. Now he makes a profit if the exchanges go one way, he incurs loss if they go the other. He is no longer a trader estimating demands and by his orders regulating supplies, he is a gambler on the exchanges. The Chancellor of the Exchequer, himself, though he tries hard to balance his budget—to make revenue meet expenditure and no more—and though he has the help of the able Treasury officials, finds himself woefully out in his estimates. The financial year, ending 31st March, 1923, showed the extraordinary surplus of £101,516,000 (applied, as well it might be, to the reduction of debt).

The following summary will not be applicable in a day or two. In a month it will need great modification. It may, one hopes, become in a year or so a record of a strange, well-nigh forgotten, state of affairs. It may then serve as a memento.

VALUE OF THE £1 STERLING ABROAD  
23RD MARCH, 1923

The rates given in the following table are those current in London on the various centres, except in the case of Lisbon, the South American and Far Eastern centres, where the foreign rates on London are quoted—

## IN OUR FAVOUR

	<i>Parity value of £ Sterling.</i>	<i>6th March.</i>	<i>27th Feb.</i>
Athens . . .	25.22½ drachmai	442.50	434.50
Barcelona . . .	25.22½ pesetas	30.21	30.10
Belgrade . . .	25.22½ dinars	420.00	480.00
Berlin . . .	20.43 marks	104,500.00	105,000.00
Brussels . . .	25.22½ francs	88.30	87.27
Bucharest . . .	25.22½ lei	990.00	1,000.00 S.
Budapest . . .	24.02 kroner	14,000.00	14,500.00
Christiania . . .	18.159 kroner	25.83	25.52
Constantinople . . .	110 piastres	695.00 nom.	720.00 nom.
Copenhagen . . .	18.159 kroner	24.53	24.12
Helsingfors . . .	25.22½ marks	168.50	173.50
Madrid . . .	25.22½ piastres	30.22	30.10
Paris . . .	25.22½ francs	77.20	75.65
Prague . . .	25.02 kronen	158.25	158.75
Rome . . .	25.22½ lire	98.00	97.50
Sofia . . .	25.22½ leva	8,800.00	800.00
Vienna . . .	24.02 kronen	332,500.00	362,500.00
Warsaw . . .	25.43 P. marks	210,000.00	211,000.00

*Parity value of £ Sterling.*

	<i>6th March.</i>	<i>27th Feb.</i>
Bombay . . .	10 rup. to gold £	16½d.
Buenos Ayres . . .	47.58d. per peso	43½d.
Calcutta . . .	10 rup. to gold £	16½d.
Lima . . .	Par	7½% prem.
Lisbon . . .	53.28d. per escudo	3½d.
Monte Video . . .	50.98d. per peso	43½d.
Rio de Janeiro . . .	16d. per milr.	5½d.
Valparaiso . . .	13½ pesos to £	37.69

## AGAINST US

	<i>Parity value of £ Sterling.</i>	<i>6th March.</i>	<i>27th Feb.</i>
Alexandria . . .	97½ piastres	97½d.	97½d.
Amsterdam . . .	12.107 florins	11.89	11.89
Geneva . . .	25.22½ francs	25.17	25.07
Montreal . . .	4.86 dollars	\$4.77½	\$4.79½
New York . . .	4.86 dollars	\$4.70	4.715 <sub>18</sub>
Stockholm . . .	18.159 kroner	17.68	17.71
Hong Kong . . .	Sterling to dollar	2/3½	2/3
Singapore . . .	Sterling to dollar	2/4½	2/4½
Manila . . .	24.066d.	2/1 <sub>16</sub> ¾	2/1½
Mexico . . .	24.58d. per dollar	2/1	2/1
Shanghai . . .	Sterling to tael	3/1½	3/0¾
Yokohama . . .	24.58d. per yen	2/9½	2/0¾

### A Possible Compensation.

It may be said that the absence of gold as a basis of comparison brings us back to the essentials, shows us that the real exchange is goods for goods. When traders have to calculate by way of index numbers, as now they must, when they are obliged to measure the goods they sell against the goods they can buy, we are returning to the primitive mode of trading. We become the merchants taking out one cargo and returning with another, sailing freighted "with amber grapes and Chian wine" and reaching home with corn and iron and bales of cloth. It is obvious enough, then, that the market for goods consists of goods; that the more prosperous our neighbours are, the more prosperous we are likely to be.

There may be an advantage in thus being made to realize that our receipts will be in accordance with our outlays, that our consumption will depend upon our production. We are so accustomed to measure things by money—we reckon our incomes by the notes we get instead of by what the notes will buy for us—that we are apt to forget this fact: the well-being of a society is dependent on the abundance of goods, not on the abundance of money. Our study of economics has been useful in accustoming us to get behind the money valuation to the services rendered—services rendered directly, or indirectly by being embodied in goods. Certainly, a society exchanges its goods by means of money; the goods are looked upon as equal in value to the money. We are not to suppose, however, as unconsciously we are apt to do, that doubling the money in a society will of necessity double the beef and boots and Brighton holidays money can buy. The ease with which advances of all kinds can be made in money oils the wheels of material progress. But one result is that people are

inclined to confuse the pieces of money (mere certificates of a right to draw goods not yet, perhaps, in existence) with goods themselves. Money was long ago compared to a road over which all the produce of a district passes to market, but which does not itself produce a single blade of anything. No one expects to eat the road ; people do expect to eat the money, to be able to turn it at any moment into wheat and oil and wine.

The advantage, in appreciating with new freshness the old truth that goods pay for goods, that consumption depends upon production, is dearly bought. For we lack now even such stability as was given by the system of barter. Relation between the currencies becomes a daily renewed calculation, as the currencies are blown up or let down, as inflation proceeds or deflation is seriously attempted. The relations are a matter of pure chance. What the business man wants in his transactions is, however, not hazard but reasonable certainty.

### **A Stable Unit.**

The banker it is to whom the business world looks as the instructor and guide of governments to more sensible ideas. For apparently even the self-appointed leaders of peoples have not divested themselves of the old fallacies about money. They are unable to see through the money veil and penetrate to the realities behind. They forget or do not choose to remember that money is not goods, nor can it be turned into goods unless the goods are in being ; that money is not capital, not factories or ploughs or stock for breeding, but is the means of transferring capital. The "searching of pockets" advocated by some as a means of "making Germany pay," will do little good to anyone.

The money fallacies have their chief illustrations in

regard to these indemnities sought from Germany. One point need only be considered to show the folly of arbitrary multiplying of money without the coincident multiplying of real goods. This point arises in regard to private property, private property which most of us look upon as the corner-stone of our economic and social order. The Allies have taken in part payment of the war reparations the private property of German subjects, leaving these to be compensated by their government. The compensation has been effected by handing over marks that have fallen as far from their high estate as Lucifer did. The ships, the lands and stocks abroad, have gone ; the marks are but poor consolation. This forced conversion would seem to be such an attack upon the principle of private property as must give encouragement to schemes of confiscation the world over.

We may probably take it that in this country people and Government have thoroughly learnt how foolish, indeed how dangerous, is the rapid changing of the monetary unit. We shall not lightly cut ourselves adrift again from the gold standard, any more than we shall have our yard 3 or 6 or 8 feet long as chance would have it. When, as a result of war inflation, the purchasing value of a pound had been halved, then pre-war debtors paid back half only of what was due. The man whose endowment policy matured in 1917 got, indeed, his £100 in return for the four or five pounds he had paid year by year. But this was only a nominal not a real fulfilment of the contract : the implied contract was that the pound paid by the insurance company should be the same—in the one thing that matters, purchasing power—as the pound paid by the insured. Business became a gamble. During the period of rapidly rising prices the high profits made created ill-feeling and impelled men to inveigh bitterly against

something curiously called "profiteering." When prices were falling rapidly, and business men were faced with heavy losses, confidence was undermined and unemployment was rife. The many necessary adjustments of wages, nearly always accompanied by friction, led to much hostility between employers and employed; and even where sliding scales based upon cost of living were in operation the friction was no more than mitigated. People in general cannot be expected to understand index numbers. When they reason things out they may understand that a rise of 5 per cent in the index number is equivalent to another shilling in the pound on the income tax. But they are fond of certainty in their money income and would be happy if "£4 a week" was an expression implying much the same next year as when they make their contracts.

## CHAPTER XIV

### RISE AND FALL OF PRICES

*"The course of Nature's phases, on this our little fraction of a Planet, is partially known to us : but who knows what deeper courses these depend on. . . . To the Minnow every cranny and pebble, and quality and accident, of its little native Creek may have become familiar : but does the Minnow understand the Ocean Tide and periodic Currents, the Trade-winds, and Monsoons, and Moon's Eclipses ; by all which the condition of its little Creek is regulated, and may, from time to time, be quite overset and reversed ?"*

### Our Dependence upon Others.

SINCE we live by exchanging, the trend of prices is of supreme importance to us : we can sell our services at a price, but how many goods can we buy with that price ? There is the obsession of all of us. The man that lived to himself had no need to trouble about prices. To him the prospect of plenty, or the dread of dearth, was the point at issue. The seven lean kine might come to eat up the seven fat kine. He was not free from ups and downs, from those alternations of prosperity and poverty that some look upon as a late birth of time, and as a result of the close dependence of man on man. Even in hunting and fishing communities there was the interchanging of superfluity and scarcity ; and as men reasoned about their lives, causes for the fluctuations and remedies against the dreaded change from plenty to scarcity and famine would be sought. As in the beginning so now, the difference being only in the greater area of the changes.

"Bad times" in England could once have coincided with good times elsewhere. Now we read that "favourable weather reports from the Argentine have given

strength to the bears," or that "liberal receipts in the North West have depressed the bulls." At the Baltic and in Mark Lane, that is, wheat speculators are affected by happenings half a world away: the bears, who would like prices to fall, chuckle when they hear of abundant harvests; the bulls, who wish prices to rise, read with dismay accounts of prolific crops. Trouble in the Balkans would, 200 years ago, have mattered to us as little as the wars between the pygmies and the cranes. To-day hindrances to farming work in the Danube basin are brought home to us by a rise in the price of bread. We are all in the same street now. Alternations of boom and slump, of elation and depression, are world-wide; have therefore greater effect upon the well-being of the community; and clamour, because of this, the more urgently for remedy. Perhaps, at any rate, if no sure remedy for the recurrences of the distressing series of events called a trade slump can be found, some consideration of the causes may suggest alleviations of the ill.

### **Boom and Slump.**

The mercantile world alternates between hope and dismay; there is boom and slump and quiescence. At one time everyone seems to be making his fortune. Prices and profits are high; work is plentiful and wages good; interest is high and—indicating the trust among men of business—bank reserves are low. Buyers find their stocks speedily appreciating; no apparent reason exists why the upward course of prices should cease; it is difficult to resist the inclination to buy further. A man is apt to be swept away by the wave of optimism; at all events he trusts in his ability to unload before the break comes. He will withdraw in time to consolidate his gains, a resolution most likely upset by the

temptation to have just one more fruitful transaction. The optimism prevailing creates meat to feed itself upon. Enterprises promising great profits are eagerly taken up ; even prudent business men accept risks they would shrink from in less exhilarating times ; bankers willingly grant new credits ; and, since securities rise in price, customers can increase what credits they have.

In the recoil of prices, heralded perhaps by the wish to sell out of one whose paper gains are large, there may be a panic—a “commercial crisis” we have grown accustomed to call it—as baseless as the former over-confidence was. Prices fall and profits are low ; unemployment is wide-spread and wages fall ; interest is low and bank reserves are rising—a sign that part of the country’s credit has been destroyed. Credit is hard to get ; money is borrowed for short periods at high interest ; goods are sold for immediate payment at any sacrifice. Merchants fear they will find it hard to meet their engagements ; many do in fact fail. Everyone is eager to get money against claims upon him ; no one is willing to postpone his claims. Confidence between men is lessened, and a solid house itself may be affected. For in these times a business man pays his debtor by passing on evidences of debts due to him ; and if these evidences are not accepted he cannot pay.

### **Changes Unavoidable.**

Perhaps the alternations are inevitable. Against many of the risks incident to the chances of this mortal life, a man may insure—against injury to person or loss of property, against fire and accident and burglary. By incurring a certain small loss he avoids a possible great loss. Against some of the incidents of life, however, he is powerless : no underwriter would assure him

perpetual youth and pay an indemnity against the dolorous progress to the sere and yellow leaf of age and decrepitude. Some business risks, too, are uninsurable. Even a giant business, that stretches backward to the supplies of raw material and forward to the customer, is only making more numerous points of contact between itself and the outside world with its uncontrollable forces. Self-sufficient it may pride itself on being ; but the greatest business equally with the smallest undergoes ups and downs. Fix its prices it may ; but it cannot fix what those prices mean in goods. Fix its wages it can ; but it cannot determine the manner of men that will work for those wages.

We need not labour the fact that those trade cycles do occur, that slump follows boom as the night the day. The fact is patent to every business man ; but what he would like to know is when the turn is to come. The economist, by his patient questioning of facts, may give a little help towards knowledge. Take one instance. During the war, and even more during the dreary period of settlement after war, ups and downs of prices came with bewildering rapidity to trouble and upset ; they prevented steady industry and trade, postponed the resumption of the ordered life of the nation, added to the prevailing discontent and confusion. Some, no doubt, found their chance in these changes. A shrewd calculator here and there—the man that can keep his senses through frenzied hours on the Stock Exchange—made profit by them. He kept off when others pressed, ventured where others drew back ; he had an intuition telling him how far the rise would go, when the downward trend would come.

Yet, if means could be found of moderating the changes, the community would benefit. Our shrewd man could take care of himself in any event ; the

generality would be comforted. The too sanguine man would not find himself, in a falling market, with big stocks or with futures that he must sell at appalling loss ; the too pessimistic, having sold largely for future delivery, would not find that in a wholly incalculable way prices had climbed from him.

### Reasons for the Changes.

At times the reasons for the fluctuations are obscure : we can as little tell why people all at once lose confidence in one another as we can tell why, in a single winter, the passion for roller-skating became supplanted by the eager desire for dancing. Reasons may, however, sometimes be obvious enough. Prices soared upward during the war-years 1914-1918, and would have done so though speculations were not. The diversion of millions of workers from production to destruction was bound to cause a dearth, to lessen the amount of food and clothing available, and cause what was available to be estimated at higher price. Our separation from the usual sources of supply acted in the same way : when our Navy blockaded Greece, currants were sold at exorbitant price ; when the banana ships were carrying troops, or engaged in bringing more essential supplies, such quantities of the fruit as reached the country commanded absurd prices ; when the Baltic trade was closed to us, and Sweden and Finland, our main sources of timber, were inaccessible, any wood in the country became a merchandise of great price.

Many imagined that, once the war was over, the old prices would be all at once re-established. For a brief period there was, in fact, a sharp break in prices. It was known that the sudden collapse of Germany had taken our Government by surprise, and that enormous stocks of all kinds—food and clothing and building material, as

well as more specific war material—had been accumulated in preparation for a long-drawn-out struggle. Such stocks, it was expected by those that had not yet realized how dilatory Government could be, would at once be sold. The largest buyer becoming the largest seller would straightway bring prices down with a rush. Any holders of big stocks, or contractors for purchase at high prices, hastened to unload so as to forestall Government sales. Their haste was needless. Government was admirably equipped for spending money ; it had no worthy competitor in that matter. It was less adapted for making money ; and, in fact, after deplorable failures, it was obliged to hand over the disposal of its surplus to private traders. And the dislocation due to war conditions had been so very great that the speedy resumption of the ordinary business of life was impossible. Production of essential supplies could not be initiated at a moment's notice.

### **Falling Prices.**

Besides, several material factors were yet operating. Our currency had been tampered with, and the gold basis could not at a moment be restored. Throughout the world there was a famine in commodities of nearly every kind ; there was a great need for new supplies of capital to old undertakings ; and new undertakings, postponed during the war, clamoured for a share in the supplies available. Contrary to expectation the Government expenditure went up instead of down. In short, after the transitory drop, prices resumed their upward trend.

The real break began at the beginning of 1921, twenty-six months after a stay of fighting had been declared. Why ? Several causes contributed. One very

satisfactory cause was that, throughout the world, men were again producing. In many parts of Europe it had taken an astonishingly short time to clear away traces of the ravages of war. The devastated districts of France, laid waste with fire and sword, its movable wealth destroyed or carried away, were becoming very much as they had been before. Belgium and Germany were again producing instead of destroying. In our country itself, though for a moment men appeared to forget that their income depended on what they produced, more of the things that really mattered to men were brought forth. Supplies, that is, were steadily growing.

Another cause was, perhaps, that the reckless spirit engendered by the war, the determination to enjoy without counting the cost, had given place to the prudence and restraint characteristic of our people. The prices of things were being more closely scrutinized ; we no longer thought it a fine thing to pay and ask no questions. Big profits seemed a thing of the past ; sacrifices had to be made in order to obtain the means of meeting present engagements ; and there was no longer the buoyant spirit that created credit. A powerful brake was being applied by the bankers. Advances were made on more difficult terms, over-drafts were reduced, loans were called in.

### **Period of Cycle.**

What period will elapse between the height of the boom and the depth of the slump is as uncertain as the height and the depth themselves are. It used to be contended that ten years marked the cycle. In a decade the wheel would have come full circle ; the years of expansion would have been followed by years of contraction and of stagnation. But definite periods

are inapplicable. In these days of mass production market conditions change with rapidity, and a cycle for one commodity may have little apparent connection with the changes in the conditions for other commodities : a shortage when producers are making exorbitant profits, may be speedily followed by a glut, when the goods produced cannot be sold at prices that will enable the producer to continue.

We need not look far for examples. In 1920 it seemed as though the motor-car industry was the one for high profits. The high prices obtainable seemed to point to an insatiable market. Here was the money-making business ; and firms the world over set about to supply the demand. Plants were extended, more workers engaged, firm strove against firm in their eagerness to reap the unusual gains. So many cars were put upon the market that remunerative prices failed, and by 1922 the boom had become a slump ; the glorious August had passed and the dull and dreary November had come.

### **Lack of Organization.**

For this is to be noted about our units of production, about the various "firms" making up an "industry" : each firm works with surprising little reference to what other firms are doing. The orders it gets are good enough for it ; it resigns its eyes to the trader as the aeroplane passenger does his to the pilot. Within the firm there is organization ; workers are put to do what they are best fitted to do ; the output of one set of workers is carefully adjusted to that of another set—the number of watch cases will grow with the number of watch glasses ; there will, in an ably-organized boot factory, be no more "uppers" than the soles to which they will be attached. Outside the firm there is a deal of working in the dark. Firm A is not aware of what

effort firm B is making to satisfy the market demand. The big fact appealing to firm A is the exceptional demand and with it the eagerly-awaited chance of big profits. It hurries to increase its output and borrows largely for the purpose. And borrowing is easy ; for merchants have given big orders at good prices, and the banker willingly transforms the debt due from the merchant into present purchasing power. The maker gets a credit and is able to put more and ever more upon the market. When a thousand and one firms are doing this, in our own country and elsewhere, small wonder that the supply overtakes the demand. Prices break, credits are contracted, and some merchants and manufacturers, disappointed in their expectations, cannot meet their obligations. So closely knit is the business world nowadays that difficulty and depression in one considerable part has its effects upon the whole ; for a business man can pay his way only when he can collect debts due to himself.

Banks raise their rates of discount and grant credits on more onerous terms. New enterprises must be deferred, and there is a lessened demand for building materials, for machinery, and for other capital goods. The slackening of employment lessens the demand for consumption goods also. Those who have bought stocks on credit, having greater interest charges to meet, perhaps even finding difficulty in renewing their loans, press their goods upon a falling market. We have bankruptcies and unemployment and distress.

### **Trader Becomes a Prophet.**

The trader—merchant or manufacturer—can hardly help making the trend of prices an obsession. He is only remotely interested in the causes making values rise and fall ; he is immediately and very directly interested

in whether the price—which is value mirrored in money—of his particular commodity or commodities is going up or down. He need not trouble about the extent to which cost of production influences prices ; he need trouble very much about whether those prices are to be high or low. If only he can foretell in advance of his competitors he is in happy case. Knowing, or conjecturing on good grounds, that the price of wool will be enhanced he vigorously lays in stock, pledges his credit even beyond the bounds of prudence in order to gain through the movement. He becomes a bull in wool. Judging—because he learns from reliable sources that the Australian wool-clip is an exceptionally good one—that the price of wool will drop, he sells for future delivery, trusting that he will at the appointed time be able to cover his commitments at the lower price. On the soundness of his conclusions depends his profit ; depends also, it is well to add, the service he performs for the public. Through his extensive buying when he believes that a rise is imminent he helps to bring about what he has anticipated ; and the rise in prices causes people to economize, earlier than they would have without the trader's intervention, in the existing stock of the commodity. His selling brings about an earlier drop, and with it a warning to producers. The indications of coming change are of paramount interest to the trader, and through him to the general community.

### Precautions to Take.

Suppose you had access to information, long before it was divulged abroad, that the Cabinet had decided upon none but oil-burning war vessels in the future ; what would you buy, what sell ? We might anticipate stimulation in the oil share market, a stimulation probably in excess of any real ground ; for a Government

moves with slow though maybe dignified pace. There would, at all events, be a temporary boom when the news got out. Whether colliery shares would rise in sympathy or fall through the cutting off of part of the coal market is a problem. Are we here to follow the general rule and to act on the reasoning that if the price of a thing goes up the price of substitutes tends upwards too : if tea costs more, coffee will be in greater demand and should command a higher price ? This possibility of substitution is always a factor to be counted with. The number of things that can be looked upon as absolute monopolies is limited indeed, even as the number of men that are indispensable is limited. A producer comes to the conclusion that his product is one people must have, that he can control its supply, and that therefore he may by raising prices augment his profits indefinitely. Immediately, in ways unforeseen, the demand falls off ; most unexpected alternatives for the dearer commodity are forthcoming ; quite unlooked for sources of the commodity comes into evidence. Railway fares, for instance, are advanced. At once business men find that they can walk to their offices and be in better health than they have been for years ; the bicycle and the motor-car makers receive an accession of orders ; the post and the telephone obviate journeys once considered necessary. Or are we to think that, when one part of a joint demand has been cut off, the other part will get its supplies on easier terms ? Some of the users of coal being diverted to oil the other users will need to pay less per ton ; and colliery shares will droop.

### **Knowledge Makes for Certainty.**

However laboriously we accumulate facts in order to form a judgment, however carefully we check our reasonings, we may be wrong in our deductions. For in

this infinitely complicated society of ours we can never be quite certain that we have at our disposal all the material facts. A little disregarded circumstance may upset all our calculations. That, to be sure, is not a reason for making no calculations at all ; it is, on the contrary, however, a very strong reason for trying to obtain command of a sufficient basis for our calculations.

To the extent that we have knowledge we replace uncertainty by certainty ; we need not guess and conjecture and gamble ; we can go forward with confidence. You are, shall we suppose ? the owner of some thousands in Consols and some more thousands in Dunlops. You are in immediate need of money. Which will you instruct your broker to sell ? Clearly, you will wish to retain that security which will rise the more or fall the less of the two. Are there any means of deciding this ? The prices of eligible securities move together, whether those securities belong to the gilt-edged class or to the more plebeian and more hazardous industrials. Yet an event may influence the first that leaves the second almost unaffected. When trade is depressed, when merchants are chary of giving orders and manufacturers reluctant to lock up more capital, when dividends are disappointing and failures are many, then any money seeking investment will tend to flow to the less exciting government stock. We shall see a rise on its price or at all events a fall less than in the case of the industrials. You will therefore be inclined to cling to consols and sell your rubber shares. Again, wars and rumours of wars come upon us. There is at once a fall in government stocks ; for it is realized that borrowings, immense and continuous, will enormously increase the supply of such. On the other hand, producers—and particularly producers of war material—look to make vastly greater

profits. Consols will then be sold in preference to industrials. Your decision may, in the event, be an unfortunate one ; you are, at any rate, more likely to be happy in your choice than if you merely tossed a coin to settle the matter.

## CHAPTER XV

### THE FACT OF PROGRESS

*“Find Mankind where thou wilt, thou findest it in living movement, in progress faster or slower: the Phoenix soars aloft, hovers with outstretched wings, filling Earth with her music; or, as now, she sinks, and with spherical swan-song immolates herself into flame, that she may soar the higher and sing the clearer.”*

#### “Material” Progress our Topic.

PROGRESS, improvement, advance, alteration for the better, all mean much the same. And when we limit our inquiry to the economic life of a nation, we cannot but admit that so far as we are concerned there has been real progress. The number of our people has steadily become greater; and the good things at their disposal have increased even more quickly. Temporary setbacks there have been and will doubtless be again; it may be that even now we, as a people, are slipping back a little before advance begins once more. Few, however, will seriously dispute that, taking long views as we are bound to do in this matter, we are better off than our fathers—better off in this, that our country contains a greater number of people able to enjoy a greater number of the comforts of life than at any time before. This is material well-being, if you like. Yet material well-being to a moderate degree is a foundation nearly indispensable to all other well-being. We may not be better than our fathers; we certainly have a better chance to be so. For we are better off, have less need of anxiety for the morrow or terror of to-day.

To recognize this is not to close our eyes to the deplorable fact of there being many millions of our countrymen living in squalor and dire poverty, with no prospect, no

incentive to exertion, no thought but to get sufficient for the day. Our impatience at this state of affairs, our eagerness to remove the cause of it, both spring from our knowledge of the much that life affords to some and the little it affords to others. We know what science has done to lighten the load of suffering humanity ; and the contrast becomes sharper between those able to enjoy all that inventive genius has placed at the disposal of the ordinary Englishman and those to whom each dawn means new misery. A reasonable hope may become ours, though, as we study our economic history—which has no cause to fight, no purpose but to enlighten.

Those who, reading the joyous pages of Chaucer, picture to themselves a Merry England in times gone by, find the needful corrective for their views in reading Langland. In the fourteenth century, Professor Skeat tells us, men were deemed old at an age which we should now esteem as almost young. Chaucer's pupil, Hoccleve, describes himself as worn out with old age and ready to die at fifty-three—

Of age am I fifty winter and three ;  
Ripeness of death fast upon me hasteth.

We now have the world and its products at our disposal ; it was a very restricted dietary that then prevailed. Fresh meat was a luxury of the few and of few days, wheat and barley were the crops that gave the food and drink—the bread and beer that men lived on ; houses and clothing and amusements suffer by comparison with ours. We are not, indeed, entitled to look upon improvement as automatic and inevitable : after-war conditions in Europe suggest that growing worse is nearly as often found as growing better is. A state of high civilization is difficult to keep as well as to gain ; and it is a well-known fact, not a surmise, that civilizations have flourished and are now no more. Still, people in our

country have achieved so much that hope of further achievements is justified.

### A Modern Idea.

This idea and ideal of progress is, we must note, a quite modern one. Stability was once the ideal. Contentment with their lot was the master virtue for men of mean estate. People would sing, and would give some sort of acquiescence in the sentiment expressed : " The rich man in his castle, The poor man at his gate, God made them high and lowly, And ordered their estate." We have, happily, rid ourselves of this numbing attitude towards life ; though we yet may have lingering doubts about the fact of progress.

On the other hand, to ancient thinkers the childhood of the world was the golden age ; there had been ever worse and worse conditions through brass and iron and lead, from gold to the baser metals. The Roman writers who wrote indignantly of the follies of their time lived, they declared, in the Iron Age. More hopeful, and more correct, is the modern philosopher's, "*L'âge d'or, qu'une aveugle tradition a placé jusqu'ici dans le passé, est devant nous* ; The golden age, which a blind tradition has hitherto placed in the Past, is Before us."

The great empires of old, Babylon and Nineveh and Thebes, had passed away, and their ruins now afford interest, even amusement, to idle travellers—

Round the decay  
Of that colossal wreck, boundless and bare,  
The lone and level sands stretch far away.

To these thinkers of early times, retrogression was as likely a phenomenon as advance, decay as sure as growth.

The idea of a cycle, too, was not uncommon. Upon the analogy of the individual life, communities themselves

were destined to advance, to rise to a height of prosperity and achievement, to sink again into insignificance. This may be our case, too ; we are no more entitled to believe ourselves secure against slow decay or sudden collapse than Asia in its glory was. The more invigorating idea, however, is that of progress ; and, it is submitted, this is the idea justified by facts.

### Factors Making Progress.

Perhaps, though, your idea of economic progress differs from the idea suggested here. Examine it a little ; and leaving for a moment vague and unsatisfying general statements, take some definite aspects of our social life for consideration. Think first of the security of person and property. Would you laugh at the exclamation of the shipwrecked crew who, seeing a gibbet on the beach where they were washed ashore, cried, "Thank God, we've reached a civilized country !" Is not a country better off when the law prevails, where right is enforced and might is not all-powerful, when the citizen may with confidence go about his peaceful errands ? That the law deters the thief and the murderer is a good to the orderly subject, "*Sontibus unde tremor, civibus inde salus.*"

We are surely justified in asserting that, in this matter of well-framed laws enforced with vigour and justice, we have made appreciable progress even during the last century. And the law, being more certain in its operation, can afford to be less ruthless. Our laws were once written in blood. All felonies—except the smallest thefts—were punished by death ; men and women were burnt at the stake for differences of opinion that we now dismiss with a tolerant smile ; hangings and floggings were in public ; branding and mutilation were

ordinary incidents of punishment. In 1801, a boy of thirteen was sentenced to death for burglary, in that he had, after sunset but before closing time, broken a pane of glass in a shop window, put his hand through the hole, and stolen a spoon that lay inside. Professor Kenny notes a case where a brother and sister, aged seven and eleven, were hanged at Lynn for felony.

Some protection, even so, was afforded through juries who brought in verdicts against the weight of evidence, and through the humane distortion of the laws by the judges administering them. A silver cup was in one case valued by the jury on the assumption that it might be of copper, with a thin coat of silver ; to avoid convicting a woman for the capital offence of "stealing in a dwelling house to the value of 40s." a jury declared on their oaths that a £10 Bank of England note was worth only 39s. ; and, when a woman had stolen two guineas and two half-guineas, the jury pronounced the sum of the four coins to be "under 40s."

### **Abolition of Privileges.**

Curious survivals of privilege and exemption have also disappeared, and among them the "benefit of clergy." This was the privilege, originally accorded to clergy, and later to all males able to read and therefore eligible for ordination, of being tried by the bishop, who could not inflict death but only degrade and imprison. Laymen had the benefit only once, and were branded on the thumb to show that they had once had it : "If a prisoner, by help of a compassionate prompter, hack out of his Neck-verse (Psalm 51, 1) and be admitted to his clergy, the jailors have a cold iron in store if his purse be hot ; but, if not, a hot iron that his fist may cry *Fiz.*"

This "benefit of clergy" gave rise to what, though

constantly attacked and threatened by eager equalizers, is still with us, the presumption that, if a woman commits an ordinary felony in her husband's presence and by his instructions, she has committed it under such a compulsion as to entitle her to an acquittal. Women were not entitled to "benefit of clergy;" and a wife, though the more innocent of the crime, would suffer death though the more guilty husband got free. The injustice was evaded by the presumption, even in earlier and ruder times an artificial one, of conjugal subjection.

### Diminution of Crime.

That crime of all sorts is diminishing among us is certain. At least since 1857, and almost certainly for many years before, as the *Criminal Judicial Statistics* issued in 1913 shows, there has been a continuous decrease of indictable crimes. In the period 1862-6, the annual number of trials was 2,860 per million of population; in 1911, only 1,720 per million.

The causes of the decrease are very largely economic. Crime has not lessened because people are more strongly deterred by terrors of punishment; it has lessened because people have been raised farther above temptation to it; they are better educated and read purer literature; they have healthier dwellings, exercise greater thrift, and make more adequate provision for the changes and chances of life. That drunkenness is on the wane is evident from every budget speech; each Chancellor of the Exchequer records a falling off in drink consumption. Drunkenness is no longer a fashionable vice; no judge would now make the comment, when he was informed that a complacent usher—breaking the old rule against giving the jury meat or drink—had provided water for the jurors, "Well, it isn't meat; and it certainly isn't drink."

## Education.

The close connection between crime and ignorance is clear from the fact that in England the proportion of persons unable to read or to write is six times as high among prisoners (about one in every seven) as it is amongst the general population.

Education has had its effect in giving men the power, and the willingness to look forward, to subordinate their whims and caprices to the general good, to work upon plans concerted beforehand, in short to co-operate more effectively with their fellows. The modern Englishman has the telescopic faculty highly developed. He subscribes, in his moments of relaxation, to the sentiment—

Ah, my Beloved, fill the Cup that clears  
To-day of past Regrets and future Fears,  
*To-morrow?*—Why, To-morrow I may be  
Myself with yesterday's ten thousand years.

But this is the exceptional mood. Usually his deepest thoughts are for to-morrow ; he works and schemes for the days that are to come. Nor should we overlook the close connection between improving education and increasing efficiency. Through education, through technical education most of all perhaps, a given amount of effort is having constantly greater effect.

## In Matters of Taxation.

We raise voices of protest not always faint against exorbitant taxation : the State we declare protects our property very effectively against other pillagers ; it reserves an unrestricted right of pillaging itself. Are we really justified in our contention ? At all events we know where we are ; we are not subject to arbitrary demands, but can check even the claims made upon our income. Nor is there oppression in the mode of levying

the taxes. And we get, nowadays, in "good government" with all that it implies, a far greater *quid pro quo* than when taxes were levied for objects in which the taxpayers could have no interest, when taxes were tributes to others, not payments for oneself.

It is hardly to the credit of human nature that we find some solace for our own hardships in contemplating the greater hardships of others. That we do so is not to be denied ; and comparison of the burden we are called upon to bear with that borne by earlier generations may soothe us a little. The European War has again proved the truth that the greatest disaster, next to a great defeat, that could befall a country is a great victory. We have a heavy bill to pay and, knowingly or not, we are helping to pay it in a diversity of ways. Our drinking of tea, our eating of sugar, our riding in the bus, our going to the theatre or the football match, our installation of a wireless apparatus, all help to swell the country's income. The burden thrown upon the country by the wars of the French Revolution was, however, even less eligible than ours. We could hardly echo Sydney Smith's comment—

" Taxes upon every article which enters into the mouth, or covers the back, or is placed under the foot—taxes upon everything which it is pleasant to see, hear, feel, smell, or taste—taxes upon warmth, light, locomotion—taxes upon everything on earth, and the waters under the earth—on everything that comes from abroad or is grown at home—taxes on the raw material—taxes on every fresh value that is added to it by the industry of man—taxes on the sauce which pampers a man's appetite and the drug that restores him to health—on the ermine which decorates the judge, and the rope which hangs the criminal—on the poor man's salt, and the rich man's spice—on the brass nails of the coffin and

the ribands of the bride—at bed or board, *couchant* or *levant*, we must pay. The schoolboy whips his taxed top ; the beardless youth manages his taxed horse with a taxed bridle on a taxed road, and the dying Englishman, pouring his medicine which has paid 7 per cent, into a spoon that has paid 15 per cent, flings himself back upon his chintz bed which has paid 22 per cent, makes his will on an £8 stamp, and expires in the arms of an apothecary who has paid a licence of £100 for the privilege of putting him to death. His whole property is then immediately taxed from 2 to 10 per cent. Besides the probate, large fees are demanded for burying him in the chancel. His virtues are handed down to posterity on taxed marble, and he will then be gathered to his fathers to be taxed no more.”

### The Position of Labour.

The position of the worker in regard to freedom to follow his own interests in his own way also deserves notice.

We need not go back to the Dark Ages, when the worker was practically a slave bound to the soil upon which he was born, and where he was regarded as an appendage to the land, increasing its value in much the same way as the oaks growing upon it did. We need go only to the eighteenth century in order to bring out the contrast between the present and the past position of the worker.

In those early days of the factory system the incipient combinations among workers were savagely repressed. The power of Parliament was invoked, and laws prohibiting combinations were enacted ; the machinery of justice was so operated that these laws were ruthlessly enforced. For the massing of the workers to work in common under one roof made united action more possible

than when, under the domestic system, workers were scattered abroad. Men, conscious of their weakness as individuals ; keenly appreciating their dependence upon one employer—with whom the fate of a single worker among the hundreds he employs would seem to have little concern ; knowing that whim or caprice or the changing market might almost at a moment deprive them of their job, eagerly combined with their fellows in the hope of improving their conditions.

### **The Impulse to Combine.**

They argued, reasonably enough, that the economists' contention—men were equal in bargaining power—did not coincide with facts. The employer of a hundred men seemed to have a hundred times the bargaining power of one isolated workman. It was a slight discomfort to the employer that one among his many workers, dissatisfied with the conditions of his employment, threw up his job. The matter was a serious one to a worker dismissed, who usually had no reserve stored so that he could live comfortably while seeking another job, whose labour perished with every day that passed. The employer was, however, in like state if his workers in a body left him. For his job, too, would be gone. Labour employs capital no less than capital employs labour ; the machinery rusts out as speedily as it wears out : it is like the sword of Hudibras that was forced by rust—

To eat into itself for lack  
Of something else to hew and hack.

To obtain something like equality in bargaining, so that the joint product of labour and capital might be fairly distributed, combinations of workmen appeared to be essential. Ceaseless agitation among the workmen and those advocating the workers' claims at length, in

1824, obtained the repeal of the one-sided Combination Laws.

### **Capturing the Machinery of Government.**

A period of toleration then followed the period of repression, of bitter persecution and prosecution, answered on the part of the workers, as was only to be expected, by riots and secret conspiracies, by fires and destruction of machinery. Progress of the unions has, since 1824, been constant. The law has been modified in their favour. Since the middle of the century the advice of Mill has been acted upon. That great thinker declared, when discussing the conditions of the working classes : “ The poor have come out of leading-strings, and cannot any longer be treated or governed as children. To their own qualities must now be commended the care of their destiny. . . . Whatever advice, exhortation, or guidance is held out to the labouring classes, must henceforth be tendered to them as equals, and accepted with their eyes open.”

The day of dependence had gone ; it was impossible to bring about an ideal whereby the rich cared for and thought for the poor so that “ the relation between rich and poor should only be partially authoritative ; it should be amiable, moral, and sentimental ; affectionate tutelage on the one side, respectful and grateful deference on the other.” But though such an ideal appeals to our sympathies, it has never been realized ; it is, indeed, grounded upon the conduct of an individual here and there.

For, as Mill sadly notes, “ All privileged and powerful classes, as such, have used their power in the interest of their own selfishness, and have indulged their self-importance in despising and not in lovingly caring for those who were, in their own estimation, degraded by

inferiority." He therefore advised workers to place their own representatives in Parliament so that it should no longer be the stronghold of those with whom the workers were in constant antagonism. In 1874 the idea bore fruit, and two "labour men" were elected. Nowadays, the members of the House of Commons, pledged to promote the interests of labour, form an important section; and "when labour governs" is at least a possibility. It may be, as one doleful critic has it, that the combinations among workmen are only too strong. "Government," he says, "no longer deals with the old conventional parties. It has to deal with vast trade soviets and rebel groups, which regard the House of Commons as an effete anachronism." This was written just after the miners' strike when, through the support of other workers, the miners, after a show of resistance by the Government, obtained their demands without great difficulty.

### **Are the Unions too Strong ?**

In any event, however, it will be hard to convince the worker that he does not gain by his union. Economists may preach, "Nothing is more natural than that a majority should seek to coerce a minority. The trade unions at present are rapidly advancing in the direction of asking for, and possibly acquiring, those monopolistic powers which destroyed the guilds. But if they attain these powers, before they are content to part with them, trade unions may no longer be necessary, because there is no trade."

The economists may argue, and support their argument by abundant figures, that the unions can have no effect on real wages; "We have seen that this law of supply and demand, against which the civil and religious powers are so prejudiced, has governed from

1200 the rate of wages of the day-labourer (*journalier*) of all those pairs of arms that the English call unskilled, that is without any special capacity or knowledge. But, it may be objected, that these were easy-going kinds of labour that did not know how to resist the current of things, and formed no association or brotherhoods. Well, it results from the figures collected by us, that these corporations more or less closed, with all the assembly of rules and privileges with which they had been invested, have exercised no influence on the price of labour, neither in feudal times nor in later centuries. The skilled workers have in vain grouped and fixed themselves in their companies ; they have undergone the same vicissitudes as the malleable poor man, isolated and disarmed before the movements of a rise and fall of wages, which were due to the scarcity or abundance of pairs of arms." Such arguments will little affect the feeling of the worker that he is better protected, has more voice in affairs, has better conditions of work, when he is in a strong union than when he is isolated.

The trade union officials should know the conditions of the market both for the labour of their unionists and for the product of the industry. They should, therefore, be able to bargain with some success and obtain for the worker a reasonable share of the price of the product. The unions, too, by their devices of standard rate and common rule, tend to make the reward for efficiency equal : the main work of a union official in the Lancashire cotton trade is the bringing it about that, whether a man works in a well-equipped or an ill-equipped mill, equal skill and energy receive the same pay. In this way they force the employers—in their own immediate as well as in their ultimate interests—to provide the best conditions for their workers.

## CHAPTER XVI

### THE INTERVENTION OF GOVERNMENT

*"Your high guides and governors cannot guide ; but on all hands hear it passionately proclaimed ; 'Laissez-faire' ; Leave us alone of your guidance, such light is darker than darkness ; eat you your wages, and sleep !"*

#### The Problem.

HERE is another of those topics upon which men will dispute for ever. How far shall the State undertake the control and direction of the nation's life ? The non-committal word in our heading, " Intervention," will be interpreted by some as interference to be resented, by others as beneficial action to be welcomed. Some there are among us to whom any control is irksome, who count their very buckles and garters as gyves and fetters. Others are happy in a childlike insouciance, content to have everything done for them, all decisions made for them. Is a benevolent despotism, taking into its loving care all the details of life, to be sought after ; a despotism upon which the ordinary citizen may rely in trustful and happy content ? Or is a man called upon, thrown into a world where wants need efforts for their satisfaction, to work out his own destiny and to ask from the society of which he is part, none but the minimum of action ? Is Government sure to be a meddling and muddling, a mischievous minding of others' business ? Is the ideal to be *minimum interference*—the State acting only where it cannot avoid action ; or *maximum utility*—the State constantly seeking the best means of promoting the general welfare ? And is it possible that the second, upon a reasonable examination, resolves itself into the first ? Are we to think so slightly of

Government action that we maintain “ A government does enough good if it works no ill, and limits itself to the prevention of ill by others ” ?

### Some Rules are Necessary.

One may well concede that for any society—whether a society for a limited object like an ordinary trading company, or a society for general purposes like the nation into which a man is born—some rules are necessary. We need not dispute that, as one says, “ Whether a nation seems bound together in name by language, or by political allegiance, or by configuration of territory, the real, living, binding force is the good-will of the people.” Still, the mutual goodwill must be evidenced by rules for the common good. Some guidance there must be ; we must, to take a trivial and obvious example, receive instructions about the “ rule of the road.” Even those most stoutly opposed to Government action, those who, thoroughly disgusted with the failings and shortcomings of governments, sought to make a clean sweep of government checks and to base their schemes upon natural liberty—have yet admitted a minimum of government.

What shall this minimum be ? Shall we say to the State, or rather to the Government representing the State : “ Give to me—I won’t grumble at the charge you make—freedom and safety. Protect me from attacks from abroad and from assaults at home ; let your police be efficient and your justice speedy and righteous. But deliver me from all those absurd restrictions that prevent me from earning a living in my own way ; I have enough confidence in myself to believe that I can do without your grandmotherly legislation.” In other words, must the modern State find its work restricted to protecting its subjects against force and

fraud ? Or shall we add the public works—lighthouses and parks and roads—for which we should look in vain to private enterprise ? The State once felt itself constrained to take its share in every incident of life ; is it now obliged to relinquish all duties but what it cannot possibly avoid ? Some duties it must perform ; is it not highly expedient to perform others ?

### Essential Functions of Government.

We have not yet come to a time—

When the war-drum throbs no longer, and the battle-flags are furled

In the Parliament of man, the Federation of the world.

As things are at present then, and pending the time when the only competition among nations will be a competition in well-doing, the State is called upon to maintain an army and a navy equal to all anticipated demands upon them. We could hardly trust to private initiative to provide these ; nor would it be safe to do so. And, since even yet we have among us a large predatory population—one finding it more eligible to prey upon others than to feed itself by serving others—we need police and much of the apparatus of criminal justice. If, too, peace and order are to be maintained among the people, there must be an easily accessible and speedily available way of settling disputes. Otherwise people would settle their own differences, and in their own way. “ When citizens see the sword of justice idle, they snatch a dagger,” we are told ; and a man thinking himself wronged without chance of redress would not always tamely submit to wrong. Civil courts are therefore apparently as necessary as criminal ones.

The modern State enters into the domain of business itself, and in some directions with general approbation. It prohibits private enterprise, creating itself a

monopolist and thereby giving itself power to impose a secret tax. So doing it restricts the freedom of people ; but the contention is that no hardships follow from this limitation of activities, since the State itself does what the people wish. In modern times this contention has been pushed far. It is said that, since the Government is the choice of the whole nation, whatever the State does is the action of the people. But there is always a dissenting minority among those that have a voice in deciding, and majorities as well as minorities may tyrannize.

Certainly some State activities are well nigh universally approved. In no country, it would seem, is the mighty machinery of the post left to private enterprise. It has been reserved for a philosopher of these latter days to inveigh against the assumption of the monopoly of coinage. Before the State undertook the work, the merchants themselves, in their eagerness to bring about certainty in contracts, tried to make the system of weights and measures uniform throughout the country. An imposing ceremony was, for instance, performed upon St. Bartholomew's Day by the Merchant Taylors. During the fair the freemen of the craft, having dined well and had their fair share of drink, took their silver yard-stick in solemn procession so that the measures of the country traders might be tested. Their modern substitutes, the army of officials maintained by the State to suppress the hollow pound weight or the elastic yard-wand, may be expensive enough ; but it probably pays. Doubts are more insistent about enterprises like the parcel-post, the telephone, and the telegraph. Could not, we begin to wonder, Government divest itself of these needless competitions with private enterprise, and concentrate its attention upon its own peculiar problems ?

### Some Possible Drawbacks.

After all, State action is attended with some drawbacks that can hardly be avoided. Every departure from the "let alone" policy is, unless for some great good, a certain evil; and doubtless the old formula, "the obvious and simple system of natural liberty," is the best in application. A man should be allowed to act in accord with what he thinks his own interests, "so long as he does not violate the laws of justice." At the least, those who advocate the interference of the State should be called upon for proof that the expected good is overwhelmingly greater than possible evils from the interference.

Attacks savage enough have been made upon this policy of prudent inactivity: "That the arrangements of good and ill success in this perplexed scramble of a world, which a blind goddess was always thought to preside over, are in fact the work of a seeing goddess or god, and require only not to be meddled with: what stretch of heroic faculty or inspiration of genius was needed to teach one that? To button your pockets and stand still, is no complex recipe. *Laissez-faire, laissez-passer!* Whatever goes on, ought it not to go on; the widow picking nettles for her children's dinner; and the perfumed seigneur delicately lounging in the *Œil-du-Boeuf*, who has an alchemy whereby he will extract from her the third nettle, and name it rent and law?" We may have, however, an intense conviction that all is not well with the world without being advocates of Government interference. That something must be done, does not necessarily imply State action.

### Want of Wisdom.

For Governments are hampered by three very grievous wants, of wisdom, of power, of money. We should

meet disappointment if we expected to have a Government all-wise and all-powerful ; and we should certainly object to provide unlimited funds for its activities. This lack of wisdom, for instance ? Can we be assured that, in the controlling of industry, the State has the best men in the places where they are of most service ? In ordinary business undertakings there is an automatic selection of the fittest ; the unsuccessful are eliminated from the controllers and take their place among the controlled. Success or failure in private enterprise means much to a man ; his fortune and his reputation depend upon it. In a political office, though, the idea is to get on without arousing serious fault-finding. *Quieta non movere*, to let sleeping dogs lie, is the ordinary official's motto ; and the silent pressure exerted upon him by his staff soon makes even the extraordinary official—who enters upon his office with ardent enthusiasm for extensive reforms—adopt the same motto.

The State Controller does not for his continuance depend upon his successful control ; nor will ineptitude or indifference bring about his removal. Governing bodies are chosen for purposes other than that of intervening in industry ; and since an articulate, well organized minority may dominate an election, we are not even certain that the best governors have been chosen. At any rate, we shall hardly look for special competence in the task of business management. A sudden turn of the political wheel may give us a new controller of the Post Office, a man who last week took but the remotest interest in the doings of that public service. He has been able to organize voters, has been able to sway assemblies of men, has made himself most useful to his party chief—here are his credentials for being at the head of a department having its influence on the whole of the nation's business. He is in nominal, to some

extent real, control of that vast organization. Can we expect him to give his whole mind to it when not only is the spirit of private interest wanting, but when he knows that his tenure of office is transitory, that next month he may be in charge of the nation's finances, or relegated to the shades of opposition ?

### **Lack of Power.**

Power to enforce decisions is likewise sometimes lacking. Sovereign the State may be ; even so, it is not omnipotent over its subjects. An actual minority, being well organized and vociferous, may well appear to be a majority. They capture the machinery of government and think to bring about the speedy adoption of a cherished plan. The more tedious, but also the more effective, method of bringing about a reform, the method of educating the nation, appears too roundabout. But no law can be effective unless it accords with the consciences and the wishes of the people. The United States finds difficulty enough in enforcing its liquor laws ; and when in London a kindly society, anxious to frame a rule in the spirit of "Safety first," had stamped upon the streets "Walk on the left" the perversity of people nullified the well-meant effort. The inefficiency of the American laws against trusts is notorious ; we have a departmental committee of our own declaring almost in despair : "While Parliament may enact that this must be done and that must be prohibited, past experiences show that even Parliament appears to be powerless to prevent two parties, either by agreement or without formal agreement, from abstaining from a course of action, namely, active competition, that neither party desires to take. Parliament can, of course, refuse to sanction bills authorizing the amalgamation or working union of two or more railway companies, and may

provide that certain classes of agreement shall be invalid or even illegal. But it cannot prevent railway companies coming to understandings with each other to adopt a common course of action, or to cease from active competition."

Nor has the State—nor from the very facts of the case can it have—the enterprise that distinguishes business in which a man ventures on his own. The Government must tread warily, after elaborate discussion, with many fears lest failure shall herald attacks upon it. Decisions cannot be made speedily, since many must be consulted ; and in business a decision deferred is often useless, sometimes foolish. Trade chances do not wait for a man to make up his mind. He is the successful competitor who—

Grasps the skirts of happy chance,  
And breasts the blows of circumstance ;

or, if you prefer the old comparison, the wise trader knows that "Occasion turneth a bald noddle after she has presented her locks in front, and no hold taken."

### **Lack of Money.**

Money, too, the expense of State action, merits our thought. "Easy with the work, generous with the pay," is what people expect of the Government (central or local) as an employer. Men will applaud general statements about the need for economy ; when particular instances of retrenchment are mooted, at once an agitated opposition springs up. These instances touch the pockets of a minority and this minority, active and organized, keenly desirous of defeating the proposal of saving, may well seem more numerous than the majority that acquiesces in the suggestions for saving but takes only a languid interest in them. The crickets that make the field ring with their noise are not, because

of the noise, of more importance than the quiet cattle feeding around.

In a household, when the need for economy arises, something must go or not come—some newspapers must be cut off, there must be fewer visits to the pictures, a shorter stay at Brighton, more discretion in the buying of gramophone records. For in a household, income is the point of departure. We are all convinced that to cut our coats according to our cloth is sound policy. We know our Dickens—

“ Annual income—£20.

“ Annual Expenditure—£19 19s. 6d., Result happiness.

“ Annual income—£20.

“ Annual Expenditure—Twenty pounds ought and six, Result misery. The blossom is blighted, the leaf is withered, the god of day goes down upon the dreary scene, and—in short, you are for ever floored.—As I am !”

Revenue is, in truth, also the point of departure in Government expenditure. The taxable capacity of the people limits expenditure, taxable capacity implying not alone power to pay but willingness to pay. It appears otherwise, however. “ How much do we need to spend ? ” is the first question, “ How shall we get that amount ? ” comes second. “ Estimates ” precede “ Ways and Means ” ; cutting down the estimates involves a Chancellor of the Exchequer in conflict with his colleagues,<sup>1</sup> devising ways and means he has them as his

<sup>1</sup> Disraeli's comment upon the relation between Gladstone eager for economy, turning the labels on despatch boxes for its sake, and Palmerston anxious to spend abundantly on fortifications, was : “ We need not maunder in ante-chambers to discover differences in the Cabinet, when we have a patriotic Prime Minister appealing to the spirit of the country ; and when at the same time we find his Chancellor of the Exchequer, whose duty it is to supply the ways and means by which those exertions are to be supported, proposing votes with innuendo, and recommending expenditure in a whispered invective.”

sympathetic helpers. And do many question the truth summed up in the phrase "the Government stroke"? Particularly in those posts where the pay is not given for the sake of the work but the work given for the sake of the pay, the labour of State employees is well nigh bound to be expensive labour. Some there are, choice spirits whom all honour, that will fight with astonishing resolution and courage for other's interests, even for the interests of that shadowy thing "the community as a whole." The ordinary man is inclined to be liberal when spending other's money, and particularly when he has at his command a purse that seems inexhaustible.

We cannot argue from what took place during the stress of war, when the need for keenness in work and for saving in material was ever present to all but the most obtuse. Even then, we are told, the munition factories or the motor depots were not hives of strenuous and unwearying industry. Besides, the wants then to be satisfied were for enormous quantities of uniform things; and consumption in peace is marked by an astonishing diversity of tastes, not by uniformity. Long ago we in this country became convinced of the ineffectiveness of sumptuary laws—laws dictating how broad the Wife of Bath's hat should be, how much velvet she should use for her gown, what she should eat for her Friday's dinner, and what she should drink at Sunday's supper.

In consumption at any rate, freedom is the general rule; and this seems consonant with the idea of maximum satisfaction. Give two boys half-a-crown each; more satisfaction follows when each spends for himself than when each spends for the other.

### Other Objections.

Some general objections to Government action deserve attention. We shall think the first strong or

weak to the degree that we admire independence and the power of spontaneous action. Is initiative, in short, worth cultivation in a people? A people that ever looks to its Government for guidance, that never of its own will takes action for the common interests, that looks to have everything done for it instead of by it, is lacking in some of the qualities of manhood. Children brought up in a family where strict supervision is the rule, where they are directed in all their doings, told when to rise and when to go to bed, are not best equipped for coping with the troubles and trials of the outside world. They have their faculties only half-developed, and any unusual circumstance upsets them. They are at a loss when thrown into the rough waves of the world away from home. So, too, a people in the habit of looking for directions instead of casting about to help itself loses the healthy tradition of independence, and with that the power of original thought.

We must remember, too, that the State is almost bound, in its activities, to lay down definite rules. However much a Government department wished to get rid of "red tape," it finds itself compelled to prescribe to its officials how, when, and where they shall act. The official that, to meet a special case, breaks the bands of the tape tying him, that is constantly called upon to justify an exceptional action, is as an official a nuisance. Frowned at, if not openly reprimanded by his superiors, he becomes weary of well-doing; he follows regulations, and becomes lost to the progressive forces of the world.

May we, this not being a severe scientific treatise, end this section by a parable? A witty Frenchman, not needing the Grand or any other Tour, found ample food for thought in his own narrow room in *Un Voyage autour de ma Chamber*. One summer evening he was at home

in his garret whence he could look to the heavens or down upon the city stir below. Opening his window to enjoy the breeze of evening he turned his eyes to the sky bespangled with its million fires, and was filled with admiration and awe. "What a sight!" he exclaimed, "How can men, who could so easily and so freely enjoy it, remain indifferent to it? If I were the Government I should soon cure this irreverent slighting of the wonders of creation." "And what would you do?" whispered a still small voice, the voice as he recognized of an intimate adviser always at hand but not always listened to, the voice of Reason. "I should at once make a law obliging all my subjects able to stand on their feet to open their windows or their doors at nine o'clock in the evening, to stand on their balconies if they have any, or to walk in open spaces, so that they might glory in a sight a thousand times more beautiful than those they run after every day." "If it pleases Your Highness," Reason resumed timidly, "Your Majesty's intentions are of the best; but would your Majesty not make an exception of sick folk?" "Certainly; that goes without saying." "And what about the nights when fog or cloud hides the starry firmament from everyone?" "Of course! Every day my astronomers will be directed to ascertain whether the state of the atmosphere allowed my subjects to perceive those rays of light from worlds far-off." "I expected no less from the wisdom of Your Majesty," the voice went on, "but there are splendidly clear nights when it is very cold. Must your subjects run the risk of influenza or pneumonia?" "I'm not a tyrant. My medical council will test whether the temperature is so low or the wind so keen that there must be a general holiday from the star-gazing; and my bellman will proclaim it time enough." "And, Your Majesty, about those lovers

intent only upon one another, those students with an examination next week, those blind men who against their will must be indifferent to the beauties of nature ? ” “ That’s enough,” he said, “ I see that there would be so many exceptions that the best plan would be to repeal the law, and to let people when and how they choose enjoy the delight I wished to force them to, perhaps making it thereby a penalty instead of a pleasure. Of a surety if I were the Government my best plan—in this matter at all events—would be to do nothing, content if I could only secure to my subjects freedom to follow their own good.”

## CHAPTER XVII

### TAXATION

*“Man is a Tool-using Animal : and surely if we consider the interval between the first wooden Dibble fashioned by man and those Liverpool Steam-carriages, or the British House of Commons, we shall note what progress he has made. He digs up certain black stones from the bosom of the earth, and says to them, ‘Transport me and this luggage at the rate of five-and-thirty miles an hour’ ; and they do it : he collects, apparently by lot, six-hundred and fifty-eight miscellaneous individuals, and says to them, ‘Make this nation toil for us, bleed for us, hunger and sorrow and sin for us’ ; and they do it.”*

### The Problem of Taxation.

THERE are any number of directions in which we could apply the reasonings of economics. We might, for example, consider the bearings upon the nation's well-being of such practical things as co-operative production and selling, of profit-sharing as a means of giving workers a keener interest in their work, of industrial conciliation in its many forms as a solution of the perplexities surrounding the relation of labour and capital, of the terribly insistent problems besetting poor-relief, of the possible beneficial extension of State activity. This question of taxation is as interesting and as instructive a problem of applied economics as any ; and, if only to show that economics has some connection with actual things, we may spend a little time upon it.

The problem touches us all. The whole world is now summoned to be taxed : the Budget speech is that which the world and his wife looks forward to with eager hope or with well-justified despondency, never with indifference. The problem is bound, too, to become more pressing as the modern state is impelled—against its will sometimes and by the force of events—to take

more and more activities into its province. For, whatever the nature of the activity, one thing is pretty certain ; it means expense, means a compulsory contribution from someone. Those who are obliged to contribute are at times tempted to say to the State, " If you want money why don't you do as we do and earn it ? " and the assumption of business activities by the local and central governments may at times be due to a desire to meet and remove the remonstrance. Since some businesses—the post, the telephone, the provision of gas and of electricity—can be carried on only by a monopolist, why should not the Government become the monopolist and apply the profits to the relief of the taxpayer or ratepayer's pocket ? The entering of the State into the sphere of industry and commerce is, however, at the least a doubtful expedition.

### Taxation Inevitable.

We must apparently reconcile ourselves to a steady growth of State expense, and face it with what equanimity we can. In 1859, seventy years or so ago, Disraeli declared : " There is not a country that can go on raising £70,000,000 in time of peace with impunity, England cannot, and if England cannot, no country can." <sup>1</sup>

The revenue to be raised in the financial year 1923-24—a " peace " year—is little less than a thousand millions,

<sup>1</sup> Half a century ago, statesmen were bewailing the growth of expenditure. John Bright, speaking of one not so enamoured of retrenchment as he himself was, said : " He stimulated them to a feeling of pride in the greatness of their country and in being citizens of a State which enjoyed a revenue of £100,000,000 a year, including that of British India. But I think it would have been far more to the purpose if he could have congratulated the working men of Liverpool on their vast empire being conducted in an orderly manner, on its laws being well administered and well obeyed, its shores sufficiently defended, its people prosperous and happy, on a revenue of £20,000,000. The State,

and there seems no hope of any great reduction. To the advocates of a suggested reform the benefits of a function to be imposed upon the State are so great, so obvious, that the drawback from the little extra expense is well nigh negligible. Yet it would seem that men should consider the well-weighed opinion of Mr. Lecky: "Nations seldom realize, till too late, how prominent a place a sound system of finance holds among the vital elements of national stability and well-being; how widely and seriously human happiness is affected by the downfall or the perturbation of national credit, or by excessive, injudicious, and unjust taxation." What Mr. Lecky would have said of these times when we are paying £1,000,000 a day for the National Debt services and £2,000,000 a day for the rest of the State's bill, we can imagine: he would have said there could be no hope of recovery. There would have been grounds for his fears. At all events we are justified in wondering whether the money raised would have done more good if it had been left to "fructify in the pockets of the people," and whether our Parliament pays adequate attention to that sensible clause in the Constitution of the United States: "The purpose for which any tax is to be raised ought to appear clearly to the legislation to be of more service to the community than the money would be if not collected."

### **Compulsory Character of Taxation.**

You may say that the payments we make are voluntary ones, that not a penny of taxation is levied without

indeed, may enjoy a revenue of £100,000,000; but I am afraid the working man can only be said to enjoy it in the sense in which men not very choice in their expressions say that for a long time they have 'enjoyed very bad health'!" We are now acclimatized to thousand million budgets, and miracles have again been out-miracled.

the sanction of Parliament ; and Parliament is our own mouthpiece. In a sense, perhaps, this is so, but so is our paying of a debt we have incurred a voluntary one. But we cannot get out of it ; we are obliged to meet the bill presented by the State's creditors as much as we are bound to meet the baker's bill.

The king once lived of his own, paid the expenses of his household, and of his army and judges, from his lands and from the feudal reliefs. It was only in "extraordinary" times that he sought subsidies. And then these subsidies were modest compared with the payments we are constrained to make. The export duty on wool made our Middle English kings quite happy ; and they testified their gratitude to the sheep by seating the Lord High Chancellor, the Chairman of the House of Lords, upon the Woolsack. But the "ordinary" revenue—from crown lands or fines or gifts—is now a negligible part of the national resources ; the "extraordinary" revenue from taxation is to-day the income of the State that matters. The income from State property, from crown lands and the like, yields less than a halfpenny in the pound of the total revenue ; Falstaff's mite of bread to his monstrous amount of sack was as nothing to this. The State gets what it spends by compulsory levies. We may, indeed, take the property of compulsion as the distinctive mark of a tax : a tax is a payment that the subject of a State is obliged to make to the public authorities, central or local. Whether we belong to the consenting majority that votes the tax or to the dissenting majority opposed to it, whether we approve of the purposes—or some of them—in regard to which the tax is levied, willy-nilly we must pay.

The character of taxation has not changed though Parliament controls both the raising and the spending

of money. The Treasury—the effective head of which is the Chancellor of the Exchequer—determines the financial policy of the Government. It settles which of the numberless suggestions for further expense shall go before the House of Commons ; it decides which of the crowd of deputations seeking remission of tax shall have their requests granted. Some taxpayers are audible : shall their loud complaints give them relief at the expense of those who silently labour under a heavy burden of indirect taxation ?

The Exchequer—over which the Chancellor of the Exchequer has no control—is the Government department that safeguards the spending of the money granted by Parliament. It sees that money voted by Parliament for one thing is not diverted to a quite different thing ; in other words, it sees that public money is applied according to law : money granted to pay the king's sailors cannot nowadays, as with disastrous effects it was when Charles the Second lived, be used to pay the king's cooks and courtesans. Its head is the Comptroller and Auditor-General. He is an official independent of political parties ; he has a tenure of office similar to that of the judges ; and, like theirs, his salary is a charge upon the Consolidated Fund, and is thereby made exempt from the need of an annual vote and its accompanying criticism. He was first appointed in 1866 because Parliament's directions about the spending of money were so often disregarded. The refusal of the subject to pay an unauthorized demand for money very early made the control of Parliament over taxation quite effective : a person asked to pay a tax unsanctioned by Parliament would be supported by the judges in his refusal to pay. But there was no effective check upon Parliament's control of expenditure—a Government creditor could hardly be expected to refuse payment

because Parliament had not authorized it. The Comptroller and Auditor-General now supplies the required check. He controls expenditure, for not a penny can be spent without his authority ; he audits accounts, and presents them for the inspection of Parliament.

### Disguising the Compulsion.

The compulsory character of taxation may be disguised. "Benevolences" were once, perhaps, voluntary gifts—given not grudgingly or of necessity—by the rich merchants to the poor king. But the merchant that did not so give was put under more or less gentle pressure ; and in Henry the Seventh's time the collectors of the "gifts" put the whole business world under contribution. Those living sparingly must have saved largely and could afford to give lavishly, those who lived lavishly even more obviously could afford to give much.

This practice of *presuming* wealth and therefore ability to pay, is not wholly out of use. The income tax authorities were unable to get any tolerable returns from the non-book-keeping farmer ; and his income is now assessed upon the rent of his farm. He is presumed to make profits in proportion to his rent. Ask a farmer and he will tell you, in a language of his own, that this is a quite absurd presumption. The old hearth and window taxes were imposed upon the principle that the size of a house indicated how much the occupant could pay towards the services of the State. Our local authorities still cling to this worn-out presumption : they take the house or the land as evidence of ability to pay rates. They have not reached the height of understanding indicated by the French minister when, a few years ago, a direct tax on income was imposed there : "We must understand that taxes founded on external signs of wealth, on the system of

presumptions, have had their day ; that their injustice condemns them, and that we must replace them by taxes on actual income or capital." In these days the State makes a number of not altogether justified presumptions—that he who is able to pay a manservant will be glad to contribute to the needs of the State, that he who delights in the display of his armorial bearings will not grudge his offering, that whenever we go to a football match or play a game at cards or obtain a box of matches from an automatic machine, we are happy to pay our share of the bill that the State must meet.

When the French Revolutionary Government sought means to pay its way, it resolved that only slaves were called on for imposts (*impôts*), and the State therefore gathered "contributions." But a contribution you cannot evade is still a tax, still compulsory ; and the compulsory payments, consented to at the outset perhaps, quickly become sources of irritation and of depression. The wise Bacon long ago told the king, "The blessing of Judah and Issachar will never meet, that the same people or nation should be both the lion's whelp and the ass between burthens ; neither will it be that a people overlaid with taxes should ever become valiant and martial." Or, to put the thought in the modern manner, "Indirect taxation so cramps trade and heavy direct taxation so impairs morality that a large expenditure becomes a great evil." This was the dictum of Bagehot, philosopher, banker, and economist. However we frame our tax system, its compulsory character makes a nuisance of it ; and the wise statesman will look upon taxes as most disagreeable incidents that he must, so far as his power goes, remove. There are still, doubtless, gifts to the State as when a man, troubled in his conscience at having defrauded the revenue, sends to the Chancellor of the Exchequer the "conscience

money" that is duly advertised in *The Times*. But such gifts are a drop in a bucket. Compulsory payments—taxes that is—make up the State's income.

### Examining the Bill.

Suspicion may rise in our minds that we are paying too dearly for our cherries, are sacrificing more than is compensated by the satisfaction we derive from the functions performed by the State. A voice, of Geddes with his axe or of another convinced of the need for economy, is raised against injudicious spending. In the 1923 debate on the cost of the Army it was pointed out that: "The cost of the various Army schools is £1,411,900: the number attending these schools is 4,030, an average cost of £350 per man. At Woolwich there are thirty-nine instructors and teachers, or one instructor to every seven cadets. On a rough calculation every two cadets had one full-grown man to look after them."

We may, however, be so wishful for a particular form of State activity that we treat as hardly worth consideration the few paltry thousands the activity will cost. Yet we cannot with any consistency cry "Lower the income tax" and "Make this England of ours, its villages as well as its towns, a land fit for men—heroes or not—to live in." We are clamouring for the moon when we ask for a free breakfast table, and couple our asking with the demand that the Government shall keep the unemployed in tolerable comfort, shall, by lavish subsidies, help the farmer who, in our not very fruitful soil and under our not very genial skies, grows wheat, shall build hospitals, make roads, provide meals and boots and clothes. If we call a tune we should not squeal at having to pay the piper.

We may, indeed, console ourselves at times by thinking

that we control the spending as well as the paying of taxation ; Parliament it is that votes supplies as well as authorizes taxes. Once the revenue raised was granted to the Crown and spending was at the direction of the Crown ; money granted to pay the king's judges went, now and again, to pay the king's wine-bill. To-day not a penny of revenue can be spent without the authority of Parliament. Even so the compulsion is real. We sympathize with our forefathers to whom the beginning of Parliament was most unwelcome. The King summoned to Westminster his knights of the shire that he might consult them in his needs and obtain their kindly help. The taxpayers could exert some control over their representatives when the King's officials came to the counties to make known the King's unfortunate embarrassments ; but in the glamour of the Court, anxious not to appear mean curmudgeons when others were ready to pay up, these same representatives might genially commit themselves to more than the taxpayers were prepared to pay. We, too, have something of this feeling when we note how inconsistent platform speeches in favour of economy are with party votes in favour of taxes.

### **The Least Objectionable Taxes.**

Taxes being inevitable, some pertinent questions clamour for answer. Who is to bear the burden ? In what way shall the burden be assessed ? What, having regard to the well-being of the State, are the most desirable taxes—or if you like, the least undesirable ones ?

A sense of fairness is in every man ; and no tax would, in a country where public opinion is effective, persist if it were felt to be inequitable. Equity in taxation, therefore, is probably the matter of most moment.

Since we are all concerned in the benefits of government, we are all called upon to shoulder our part of the corresponding burdens imposed. But justice, as well as expediency, asks that the burdens shall vary with the backs. There should be something like equity in taxation : the Duke of Westminster should be happy to pay very much more than Harry Jones, who lives with his wife and four children in a six-roomed house in Balham. We are, true, concerned with our study of things as they are, yet we cannot help ideas about things as they ought to be from thrusting themselves upon us ; and the greatest of economists wrote : "The subjects of every State ought to contribute to the support of the Government, as far as possible in proportion to their respective abilities." *Ability to pay* is the guide. This standard of perfection, this ideal of equality of sacrifice, is doubtless unobtainable ; but that is no reason for not making advances towards it. Our income tax—a great code of taxation rather than a single tax—certainly makes a courageous attempt, as the sergeant-majors did when they adjusted our packs, to distribute the weight evenly. Some consideration is paid to the burthen already upon us before we are asked to bear another : our family responsibilities, the amount we must pay in order to meet mortgage charges, the amount we feel constrained to pay in insurance—these are all taken note of.

### **The Principle of Equity.**

That law of diminishing utility we discussed in earlier pages is applicable to incomes, too : every penny matters to a poor man, a rich man need not be heavy-hearted though many pounds are taken from him. For he is not thereby obliged to reduce his consumption of necessaries. It does not, therefore, conflict with our

principle of equality that the rate of tax increases with the income, and that this effect is strengthened by the imposition of super-tax on the higher incomes. Nor need we inveigh against the income freed from tax in order that it may be spent upon necessaries, nor against the allowances made in regard to children and to insurance premiums. Long before Governments had been obliged to make a study of taxation, this necessity of tempering the wind to the shorn lamb was recognized. When Wat the Tiler and his men, in 1381, asked the pertinent question, "When Adam delved and Eve span, who was then the gentleman?" the immediate cause of their rising was a head-tax, graduated according to ranks and professions. A duke—not then three a penny—paid ten marks, an attorney half a mark—half, that is, of his 6s. 8d. Even so the tax was felt to be an imposition that should not have been placed upon the poorer people.

Ability to pay should decide the amount to be paid in taxes. We are to remember this, however; the fairness of a tax, though assessed in accordance with the ability to pay, may be destroyed by the chances of evading the tax. Perhaps we may take it that no tax will be paid if one can escape it; but the chances of evasion are fewer for one taxpayer than for another, and the eagerness to take the chances is less in one case than in another. Who can tell the income of a bookmaker, of a doctor, of the head waiter who thrives on his tips? The melancholy history of the income tax, our own and that of others, shows that in practice the people who do not palter with their consciences are unduly burdened; they bear some of the load that those who give themselves the benefit of any doubt have managed to dodge.

The extensive evasion of the income tax brought about, very early in its history, the practice of "stoppage at

the source," a practice not only simplifying collection but increasing yield. Clearly, however, the modern idea of progressive taxation can hardly be applied when this practice obtains. It overcomes difficulties of managing the taxes ; it prevents, however, due regard being had to the necessities of contributors, and tends, therefore, to fight against the standard of equality of sacrifice. In Italy there is a lower rate upon the incomes of the State officials than upon other earned incomes, the wish apparently being that their officials shall be put upon a fair footing with those who may evade some of the tax.

In view of the suggestions to the State for large schemes of social activity—accompanied by expense—the fact of evasion is of importance. For Socialism would not be content with 5s. in the pound, it would require the whole income ; it would, as a sprightly critic points out, exact the whole pound and give us some amount of poor relief in lieu. Whether the most inquisitive Government could discover the whole income of one willing to hide some may be doubtful. And the attempt to have a portion of our earnings to ourselves would tend to turn us from law-abiding into law-breaking citizens.

### **Economy of Collection.**

Again, a tax may be recommended by arguments none can dispute. Yet if its collection swallows up a great part of its yield, other less desirable taxes are preferred : a tax on dogs is apparently easy to collect. For every dog has a owner unless it belongs to the regiment. A tax on cats would, however, be impracticable, for who owns the cat that wakened us last night ? A tax on entertainments seems easily enough collected by means of stamps or turnstiles. Even so we are told that the *capacity* of football grounds has diminished since the tax was imposed. The land tax is an

instance : in theory no tax could be better justified, in practice it has apparently failed. What was called the "unearned increment" on land is an income that grows without exertion or sacrifice on the part of the owners of land. Where population is increasing there owners grow richer in their sleep, without working or risking or economizing. So it was that Mill suggested the Land Tax : "I see no objection in declaring that the future increment of rent should be liable to special taxation ; in doing which every shadow of injustice to the landlords would be obviated if the present market-price of their land were secured to them ; since that includes the present value of all future expectations." Such a tax is a taking by the State of part of what to the individual is a windfall ; and none of us would object to the relinquishing of some portion of an accession of wealth unexpected, undeserved, and unsought.

Mill's suggestion was timidly adopted in 1909 : 20 per cent of the increased value of the land was to be taken by the State every time the land changed hands, either by sale or by death. The yield was small, the cost of land valuation was great ; the difficulty of finding how far the value had grown became more in the war years through the tricks that the currency played : and the tax was abandoned in 1920. The peppercorn rent—the tea and stamp duties—received by George the Third's Government from the American Colonies cost England the United States ; the much cry and little wool from the Land Tax was in like manner discouraging, though not, happily, in the same degree.

### **Convenience and Certainty.**

A wise Chancellor of the Exchequer will try to impose such taxes as can conveniently be paid. He will do this, not because he considers taxation as "the art of

plucking the maximum number of feathers from the goose with a minimum of squealing," but because he knows that irritation and annoyance are an additional tax over and above that which goes into the coffers of the State. And it will be his duty to see that everybody knows how much he is to pay, the merchant, when he takes tea out of bond, the motorist with his car of the many horse-power, the income tax payer with his several obligations.

The marks of a "good" tax are therefore : *Equity*—fairness as regards contributions. (Taxes will be levied upon some rule that has a connection with ability to pay. One on bachelors might be approved upon the ground that, not having to keep a family, they can afford more, but not a tax upon an arbitrary rule, on blue-eyed babies or red-haired men for instance); *Certainty*—a tax rising and falling, according to the judgment or the whim of the taxgatherer, arouses far more opposition than a larger tax, the amount of which everybody knows; *Economy*—the expenses of collection are small; *Convenience*—the payment should be made as easy as may be to the taxpayer: he should not be called upon to pay his income tax when he has just returned from his midsummer holidays.

### Productiveness and Elasticity.

The first is the guiding rule for all taxation ; the others are rules relating to separate taxes. From the Chancellor of the Exchequer's standpoint two other properties commend taxes, their *productiveness* and their *elasticity*. In the interest of these he is at times obliged to give up his ideal of equity : he must have money ; and, in order to balance his budget, he must be able to calculate with some exactness.

The tobacco tax, for instance, and that on beer are

unduly heavy on the poor man ; the man with five thousand a year does not smoke a hundred times as much tobacco or drink a hundred times as much beer as the farm labourer with his pound a week. And since the labourer smokes the cheaper kind, a uniform tax will make a larger percentage of what he pays into tax ; he is doubly wronged. The farm labourer, as is sometimes suggested, need not incur the tax if he gives up smoking and drinking ; as indeed we can escape from the income tax by earning no income. But escape in this way from either tax is attended with drawbacks. Some check in consumption there may be ; but, when an article has come to be looked upon as a necessary of life, the check will only be slight. The farm labourer continues to contribute to the Exchequer whenever he smokes a pipe, or drinks a glass of beer, or plays a game at cards, or puts a spoonful of sugar upon his porridge. The taxes are productive and, much as the Chancellor of the Exchequer deprecates them, he cannot afford to give them up.

He rejoices likewise in the income tax because besides being productive it is elastic ; he can calculate to a nicety what another penny more or less in the pound will bring in. He has all his collecting machinery in working order, and he can accordingly, by manipulation of the tax, adjust income to expenditure—balance his budget in short. We may hear now and again that raising the income tax makes a man disinclined to increase his earnings ; whether it has, in the lower incomes at any rate, any perceptible effect in this way may be doubted.

### **Motives other than Revenual.**

We have considered taxes so far from the revenue point of view. But other motives than fiscal may dictate

taxes, or at all events be a factor in their dictation. Custom duties are placed upon tea and sugar because these are articles consumed by everybody and therefore are productive of a great revenue. But duties are imposed in order to discourage the import of goods competing with the industries "safeguarded" by the Act. The duty is then successful to the extent that it secures the home market for the home industry, to the extent that it keeps out the foreign rival. The less revenue it brings in, the more will its promoters be pleased.

Taxes may, too, be so levied as to remedy in some measure the inequalities of fortune, to benefit the dispossessed at the expense of the possessors. When, in 1906, pensions were voted to those over seventy whose three score years and ten had not enabled them to amass property more than £30 a year, the raising of the Death Duties was the means adopted to pay these pensions. The young rich paid for the old poor. So, too, expenditure on education, on poor relief, on unemployment payments, all coming in great measure from income tax, is met by those who get no direct benefit from the expenditure. Yet, perhaps, we might justify this expenditure. To the man who asks "Why should I pay to educate another's children?" we might urge "But they are your's—the State's—children; and you have a responsibility in respect to them."

In considering whether to raise additional revenue by increasing the direct taxes—income tax and death duties, or by extending the area where indirect taxes fall, we are faced by a difficult problem. The direct tax is in theory best: if everyone were straightforward it could be assessed fairly; we feel that we are paying it—it is not simply knowing that we are paying as when we pay the duty on sugar—and have therefore

fuller sense of financial responsibility ; and public interest in it conduces to economy in public expenditure. The indirect tax is forgotten by most people after the opposition to its first introduction has given place to more interesting topics ; people look upon it as part of the natural price, it becomes a kind of secret levy upon the community. "An old tax is no tax." Mill, indeed, contrasts the "ignorant impatience" of direct taxation, the dislike of seeing the face of a tax collector or of receiving his note marked "Private," and being subjected to his peremptory demand, with the easy manner in which people consent to let themselves be fleeced in the prices of commodities.

The direct tax, the burden of which is felt by him who pays it, can be adjusted so that unfairness is not great ; it rouses a healthy public watchfulness over waste ; it can easily be raised or lowered as the bill to be met changes. The indirect tax, paid by him who is expected to shift the burden on to another, causes less discontent ; it is paid at convenient times ; it need cause us no considerable discomfort, since we can restrict our purchases of the taxed articles. The question, however, deserves further consideration.

### **A Drawback to Indirect Taxation.**

Among the points we must consider when deciding how to meet the bill we pay for good government one of the most important is the effect the suggested tax has upon the efficiency of the people. It is bad economy to save on a horse's fodder, it is far worse economy to save on a man's. The Norfolk farm worker, having 25s. a week to provide a "living" for himself, his wife, and four children, has a hard enough struggle ; is it wise to make it harder, to bring about conditions that will have an ill effect upon generations to follow ? Any

fair tax system must, through allowances for family wants, be graduated and adjusted to ability to pay ; but there can be little adjustment in indirect taxes.

The labourer with his twenty-five shillings a week may not know that he is paying a tax on tea or on sugar ; but the State is acting against its own enduring interests when it takes advantage of his ignorance and obliges him to restrict his spendings on bread and milk. And even if he should divert a little of his income to tobacco or beer we are still penalizing his wife and children by making access to the ounce of tobacco or the pint of beer more difficult.

What is claimed as a merit of indirect taxes—that they cause little bitterness, and that little soon forgotten, against the Government—is perhaps a demerit. The indirect tax inflicts, as by stealth, such a burden upon the class at the base of the community as is not only greater but is quite different in kind from the burden inflicted upon those whose supplies of necessaries are maintained intact. As things are in England, and in the June of 1923, indirect taxes take 15 per cent of an income of £100 and about a tenth per cent of an income of £50,000. It is all very well to say as Turgot did, “ The expenses of the State, having as their aim the interest of all, all ought to contribute to them ; and the more men enjoy the advantages arising from their being members of a united community the more honoured they should feel in being asked to share the burdens.” (*Les dépenses du gouvernement ayant pour but l'intérêt de tous, tous doivent y contribuer ; et plus on jouit des avantages de la société, plus on doit se tenir honré d'en partager les charges.*) The farm worker, sweating in the eye of heaven when hay time's here, or spreading manure oyer the frost-bound fields, all at sixpence an hour, may well ask us what these advantages are that

he has. And we should find it difficult to reply. Better a big income tax than a tax on imported wheat or even on sugar.

### Effect on Prices.

That a tax on goods raises the price needs no proof. Let the Budget speech announce the raising of the duty on tobacco and in the twinkling of an eye up go the prices. There is no waiting till the stocks held need replenishing. The producers of the taxed goods hope that the demand is inelastic enough not to shrink under the new pressure. If, as is likely, the producers are well-organized and can stand a loss they may even face a falling off in demand in the hope that later years will bring a modification of the tax. Customs, import duties with no other purpose than revenue, are paid by the merchant when he takes the tea or tobacco out of bond ; what he pays he puts on to the prices. The consumer pays ; the number of taxes that the foreigner pays is negligible. The addition will, indeed, tend to be greater than the tax. For the merchant's money will be tied up longer and he will seek to make a bigger profit on the smaller amount sold. So, too, when an excise duty—balancing the import duty on similar goods—is imposed, the price rises by the full amount of the tax : the consumer it is that pays.

Now consider the effects of a tax levied upon foreign produce and intended not for revenue only, or at all, but to increase home production ; consider the tax spoken of above, on wheat. This will, it is said, "protect" the home producer, will enable the farmer to develop agriculture—a "key" industry if any is—and will therefore increase profitable employment in the country. The tax being imposed will cut off part of the foreign supply unless the traders in corn had been

making a good deal more than the ordinary rate of profit, a thing not very likely in these days of keen competition and accurate information. To meet the demand for a thing so little elastic as wheat, buyers will need to bid higher, and it will pay to plough land that formerly could have been farmed only at a loss. Extra gains will accrue on lands that even under the old prices paid their cultivators ; and this extra gain will be absorbed in rent as the leases fall in. The tax will give a great accession to the landlord's rents, will provide a little contribution to the Exchequer, and will impose a burden upon all those that eat bread—a burden that becomes the greater as more and more of the income must be spent for food, will be greatest of all where it should be least.

### Direct Taxes Burdensome Too.

We are to remember, though, that direct taxes themselves may penalize those never meant to be burdened—a further reason for limitation of the expense of the bill to be met. Lavish expenditure is bad for this among other reasons, that the wrong people may be obliged to pay for it ; and, however we arrange our taxes, we may be unable to prevent this injustice. We may, for instance, in reference to those same Norfolk workers, consider the letter below—

*To the Editor of "The Times."*

Sir,

The agricultural workers are the salt of the community. The labourer, poor fellow, is striking for 6d. an hour in Norfolk ; the farmers lose money in paying even that miserable wage. The Prime Minister has no remedy. Has the disease really been diagnosed ? The Minister of Agriculture (19th March, 1923) premised that "the actual cost of flour in a 4 lb. loaf at present prices is about 5½d." The price of the 4 lb. loaf in many rural villages is 9d. The farmer sells at 5½d. ; the labourer buys at 9d.

The miller and baker are not in business for their health ; they have to pay extra taxes, extra rates, extra railway rates, etc. They add it all on, and possibly a bit more, to the flour and the loaf. The real remedy, therefore, is drastically to decrease costs, including taxes, rates, railway charges, and other items.

The building trade is on the verge of a wage crisis. If charges for building are high no one can afford to erect a mill to grind wheat or a bakery to bake flour. So present vested interests are entrenched. The weakest workers are consequently crushed in this our present Utopia of spendthrifts. I seem vaguely to remember sometime something about 9d. for 4d. Happy days ! For agriculturists it is now pay 9d. and get 5½d.

Every candidate should pass an examination in economics before being qualified to sit in Parliament. This should apply especially to Ministers, Prime Ministers, *et hoc genus omne*.

Yours faithfully,

GEORGE LAMBERT.

*House of Commons, 22nd March.*

### Incidence of a Tax : Entertainments Tax.

The incidence of a tax—the answer to the question, who really bears the burden ?—is a problem one cannot easily solve. We start from the axiom that, if one can shift on to another's shoulders the sacrifice involved in paying a tax, he will do so. The good citizen is, we are now and again told, he who gladly pays his taxes ; but he may easily suppose that the Legislature intended him to shift that tax. It was meant for an • indirect tax. Who pays the heavy rates and rents—themselves contributing to the income tax returns—upon the shops in Regent Street ? Is it the customers or the shopkeeper or the landlord ? In an action for the price of an emerald brooch the evidence showed that to meet their heavy overhead charges the shopkeepers were obliged to add at least 50 per cent to their buying prices. The customers would seem, therefore, to bear the burden ; but doubtless the shopkeeper and his landlord have something to say about the question.

Among a twittering flock of war-time• taxes, on

watches, on matches, on table waters, that whereby the State took to itself part of the price paid by its subjects for admission to picture shows and football matches seemed among the least objectionable. He who was willing and could afford, in time of war and dearth and distress, to pay for pleasure must be presumed willing and able to contribute to the State. Obviously the theatre managers would not bear the tax ; for would they not simply add the tax to the admission price, vociferously calling their patrons' attention to the fact that the Government must be blamed for the added expense ? And the tax could be collected without trouble ; for could not the managers, under various pains and penalties, be called upon to be their own tax-gatherers ?

Some points have of late become prominent, however, suggesting that the question is not so simple as all this. We have the spokesman for the theatre managers roundly asserting that there cannot be a tax so unjust in its incidence as the Entertainments Tax is to those who pay it. It is an added burden to men already paying their share of the general burden, to men who, not fleeing to Italy to avoid paying this share of the cost of the war, still live in happy, though grievously burdened, England. The theatre-manager spends some of his working day, or night, in filling up Inland Revenue forms ; he pays the tax on his takings whether or not his receipts are greater than his outgoings ; and, most galling of the hardships, he cannot transfer it to another. The theatre-manager argues that *he* would enjoy the tax if the Chancellor of the Exchequer did not. For he says that the theatre-goers are not an infinite number nor have they bottomless purses. There may have once been a preference for a seat in the pit at half-a-crown rather than for an extra good lunch, but when the tax

is also to be paid the lunch has it ; the theatre-goer spends no more on his visits than he formerly did, and the State gets some of that amount. In short, the demand for theatrical performances is an elastic one—so many desirable ways of spending a surplus present themselves that a little obstacle in one way means a great divergence from that way. There are, however, reasons for preferring the tax to one, say, on bread and milk, and we need not shed bitter tears over the sorrows of the theatre manager ; he can cry lustily enough himself.

One point only we should note. The argument that the tax is imposed upon a special class is of little weight, since it can be applied to all taxes—on tea and on tobacco, on incomes over £2,000 and on estates over £500. For example, by enacting the “corporation tax”—paid by joint stock companies—the British system of taxation differentiates in favour of the chief rival, the private business. A slight amount of injustice does not condemn a tax. Some taxes, even though unjust, must be imposed if only for the very sufficient reason that the State's property yields less than a penny in the pound of the revenue apparently needed. Every tax in isolation is very likely unjust.

## CHAPTER XVIII

### GOVERNMENT EXPENDITURE

*"Had these men any quarrel? Busy as the Devil is, not the smallest! They lived far enough apart; were the entirest strangers; nay in so wide a Universe, there was even, unconsciously, by Commerce, some mutual helpfulness between them. How then? Simpleton! their Governors had fallen-out; and, instead of shooting one another, had the cunning to make these poor blockheads shoot.—Alas, so it is in Deutschland, and hitherto in all other lands; still as of old, ' what devilry soever the Kings do, the Greeks must pay the piper ! ' "*

### The Burden of War.

WE may, indeed, put at the forefront of expenditure the amount we spend on war and the preparation for war. In the financial year ending 31st March, 1923, appear the following astounding items—

Permanent Charge of Debt (contracted mostly for war)	£14,209,421
Interest, etc., on the War Debt	309,780,511
Army, Navy, and Air Force	111,000,012
Principal of National War Bonds paid off	44,684,100
Other Debts under War Loan Acts (1914-1919)	17,299,889
	<hr/>
	£496,973,933

The year's revenue was £914,012,452, so that a good deal over half the money paid to the State went to pay for the luxury of war. Figures, as a rule, are dull enough reading; but these are striking enough to interest anyone. When we were spending a hundred millions for our national housekeeping it seemed to many quite enough; five times that amount is now going for the one service. The pensions—also resulting from war—we are pledged to pay are the least onerous part of the burden. And, because we are spending—

because, having pledged our credit, we must spend—so much in this way we can spend so little on a service like education, which really pays for the outlay. We may, for example, contrast with the appalling amount noted above the amount allotted “for the organization and development of scientific and industrial research,” on which one may well contend continuous progress depends. The sum of one million was in 1915 vested by the Treasury in a trust to be held “for the use of the Department of Scientific and Industrial Research.” It could not afford more. No more than you or I has the State the elastic purse of Fortunatus. Those who look upon the State as a milch cow that will yield so long as milking continues may ignore the fact. But equally with your own expenditure the State’s is limited by the amount of income it can get: the “taxable capacity” of its citizens is its farthest bound, and, as we have noted, the “taxable capacity” includes not the wealth merely of its citizens but their willingness to part with it.

### **Economy is Hard.**

It needs much force in the movement for economy to reduce an amount even such as the one above. In war as in other expenditure it is far easier to spend more than to spend less, to launch upon new outlays than to curtail old ones, to cultivate a taste for choice cigars than to give up smoking. A single point may make this evident: every extension of State activity means new officials; the outlay for these officials at the first, during the period of training, is possibly little; the State, however, is committed to an ever increasing outlay; each official seems to have a right to his place, and we in this country are very tender of vested interests. The work continues to be done though its object is gone,

A small but instructive illustration is supplied by the fact that Somerset House still (in the summer of 1923) has a number of clerks engaged solely in stamping and registering deeds in connection with land valuation. By the Finance Act of 1910 new duties were imposed in respect of land, and for the purpose of duties on land values a valuation was required to be made on all lands. By the Finance Act of 1920 these Land Duties cease to be chargeable ; the obligation of the commissioners to make valuations ceases ; and there are provisions for refunding duties paid. But the Clauses of the Act of 1910 are not expressly repealed. The administrative parts of this Act, as to the stamping of Deeds, remain in force ; such view is taken at Somerset House.

The objectors to economies in detail are always audible ; we have members of Parliament who, convinced though they are of the need for drastic retrenchment, "hope that the War Office will reconsider its decision to withdraw the capitation grant to cadet corps, and can see its way to contribute the grant of the paltry sum of £50,000." The idea seems to be that "the lore of nicely-calculated less or more" is unworthy of a statesman ; that, in this respect at all events like High Heaven, he is entitled to disregard it ; that when fifty millions a year must be found to pay the interest and sinking fund on our American debt, items less than fifty thousand are bagatelles, and only a pettifogging nature could notice them. We have homely proverbs to the contrary. A little grant means by implication many little grants, which together constitute a big burden. A good case can be made out for a subsidy on new houses, for a grant to farmers lately fallen from their high estate, for an encouragement of the air lines, for the growing of sugar-beet, for any number of others. Treat all alike, and there will be

either no bill to meet or an exorbitant one : in the first event the State would do only what it could not avoid doing ; in the second we should all be subsidizing one another.

For we must not forget we are the State. All those subsidies we clamour for as citizens come from our own pockets. The State's purse is our purse ; the millions of pounds paid to the State's creditors or its favourites come from the shillings of our income tax and the pennies on our sugar. What we receive we have given, and usually much more. For in the journey from our pockets and back again there has been a shrinkage of the money ; the income tax assessors do not work gratuitously nor the Custom House officers. In the good old times the King was happy if he got a third of what his subjects were forced to pay. We are better off in this respect now ; but still not nearly all the money collected is returned in refreshing showers upon the community.

One very real reason for not acceding to the request of every social reformer for new expenditure is that the State cannot act unjustly ; if it spends in one way it cannot refuse to spend in another way shown to be equally deserving, justified by the same arguments as were successful in the first case. Just as in taxation the burden should be so distributed that the sacrifices of each are roughly equal, so in expenditure the benefit received should be shared by all. For almost any suggested expenditure there are not wanting able advocates : it can easily be shown that the money will be spent in a manner conducive to the public interest. The State may turn itself into a gigantic education department, doubtless with profit ; but then the most expensive education does not dispense with the need for the police and the apparatus of justice. On the

contrary, suggest Professor Moriarty and friend Raffles. Or, indignant that men should starve in the midst of plenty, that there exists an underworld along with the upperworld of gilt and music and pageantry, Parliament may divert to poor relief the money it used to vote for war and war's alarms. The benefit is more doubtful here ; for independence and self-help are still virtues ; and, till we have an effective League of Nations, means of defence are a necessary.

It comes to this, that since the number of suggested expenses is limitless and, in our own country itself, the revenue is limited, many suggestions must be ignored and none but must be rationed. All, except such as are unavoidable, might well be so ignored. At any rate, when we can spend only a limited amount, reason dictates that we should observe proportion. Any department you like to mention would be glad to spend more, asks for more under the plea of efficiency ; but then there will be the less left for another, and we are bound to examine conflicting claims. Some provision for defence is a necessary ; but we may find ourselves forced by the clamour of those keenly interested into the luxury of display.

### **The Curb on Expense.**

It is almost in the nature of things that, unless some great leading principle of economy is steadfastly kept in view, a Government is bound to be extravagant. Members preach economy in the abstract. The demands for expenditure are specific, however, make a stronger appeal to the minds of men, are more persistent ; and these demands are accordingly apt to carry the day. A member is willing enough that retrenchment shall proceed in matters to which he is indifferent ; he resents it in matters to which he attaches great weight. The

official pleads for more money on the grounds of efficiency ; the many who would be adversely affected by the saving proposed urge more strongly the folly of withdrawing supplies. The Chancellor of the Exchequer is our hope. Mr. Gladstone, one of the greatest, declared : " No Chancellor of the Exchequer is worth his salt who makes his own popularity either his first consideration, or any consideration at all, in administering the public purse. In my opinion, the Chancellor of the Exchequer is the trusted and confidential steward of the public. He is under a sacred obligation with regard to all that he consents to spend." The one guardian of public money, that is, the one watchdog against those who prowl about for money from the funds, is the Treasury. And the Treasury, as one of its chief officials mournfully notes, is the least popular Government department.

### **The Benefit Theory of Taxation.**

If those calling for State action could be made to pay for the action taken, there would very likely be fewer calls. State activity—to endow a State theatre, to keep up the breed of racehorses, to provide prizes for impecunious artists—is attractive largely because the many indifferent pay for the satisfaction of the few. We may, in the interests of economy, ask ourselves the question therefore, " Who benefits from this expenditure ? " *cui bono* ? and finding an answer ask again, " Can he be made to pay for the benefit ? Can we force from him his *quid pro quo* ? " The Great North Road stretching like a grey ribbon through the green of agricultural England, benefits a little those living alongside it ; it benefits greatly those who speed over it in motor-cars. Who shall bear the cost of the upkeep ?

This benefit theory of taxation is pushed far in local finance. Rates, levied by men we know and sometimes meet, by men persuaded against their will that they cannot make good those old pledges for retrenchment, are more resented than the taxes levied by a far-away authority ; and there is, as a result, the greater determination to see that something is had for the money paid. The rating of people becomes, indeed, a kind of compulsory co-operation benefiting the contributors : a road is made, " adopted " is the general term, and those with properties abutting on the road pay their quota ; the police force is strengthened, and the just (able to go about their lawful errands in greater security) and the unjust (restrained from their evil ways) join in the footing of the bill ; water is brought from the national water reservoir among the granite hills of Wales, and all contribute to the scheme in accordance with their presumed ability.

### **Who Should Pay ?**

The difficulty comes when we are to decide whether a benefit is only local, and the expense consequently to be borne by the locality, or is national, calling for support from taxes, not rates. And though it should benefit a few, is it not possible that the many may be keenly interested, too ? The brotherhood of burglars can hardly be called upon to pay for the judges and the prisons existing largely because of them. Should we not, for instance, look upon education as so emphatically the concern of all that it should be governed and financed by a central body ? With a multiplicity of local authorities there is confusion and sometimes hardship. The London County Council itself, tired of providing schools and colleges for those students without its area who are adding nothing to its revenue,

has been constrained to make "out-county students" pay the full cost of their education.

### Keeping the Poor.

And shall each locality keep its own poor? Shall Kensington and Belgravia be preserved from contributions to Poplar and Bethnal Green? Shall London be a chequer board upon the white squares of which the rich live without being effectively reminded of the confused cries without, upon the black squares of which the poor struggle unhelped for a living? Poplar says No! calls loudly for a central fund from which to draw, and assesses rates of astonishing amounts upon enterprises—railways, docks, and warehouses—that have little to do with Poplar. Poplar's call was indeed so loud and insistent that in 1921 the Government passed an Act—the Local Authorities (Financial Provisions) Act—making a given scale of outdoor relief a common charge upon all London boroughs. Now Mayfair not only knows but feels that there are paupers in Poplar. In ways recalling the disastrous period before the reform of the Old Poor Law, local sympathies have made the lot of the Poplar workless more desirable than that of the workers; for the Guardians of the Poor—a curious name taking all things into account—can now vote what other people will be called upon to pay. "Our employees living in Poplar," one firm wrote to the guardians, "have pointed out that they can get more money by being unemployed than by working for us; and, as we have no wish to prevent them from getting as much as possible, we propose to dismiss them so that they can take advantage of your relief." Benefits ill-judged become wrongs; give a schoolboy all the holidays he would like or a drunkard all the gin, and you are his enemy and not his friend. That a thing is done with

the best intentions is not a sufficient justification for it. Small wonder that a quarter of the workers are without work and receiving from the Central Government what rough common sense calls a "dole," but which round-about official speech terms "unemployment insurance payment."

### **Buying Public Health.**

One further bill we may spare a little time to look over. The expense incurred in regard to Public Health is closely connected with that for the relief of the poor. In one way, indeed, our care for health has risen from efforts to prevent people's coming upon the poor rates. Here, seemingly, is another illustration of expense benefiting in the first place a few immediately concerned, benefiting indirectly the whole society in the lessened risk of infection and the lessened number of those brought by sickness to poverty. Payment from a central fund would, accordingly, seem to be indicated. But here again local needs are better appreciated in the locality; and the efficient working of the measures will be obtained by calling upon the localities for, at all events, part payment.

We all recognize nowadays that national health is a foundation of well-being, and that public health is purchasable. Like other things that have sprung from enlightened self-interest, provision for the sick was in a manner due to the self-preserving instincts in man. A sound man fears the imminence of disease. He may, in fact, like the animals that drive away the maimed of the herd, be ruthless in protecting himself, may bar the leper from human society, and, writing upon plague infected houses "Lord have mercy upon us," may imply that no mercy could be expected elsewhere. It was the westward movement of Asiatic cholera that prompted

the Public Health Act of 1872 instituting medical officers of health, half the cost of whom are to be borne by the Exchequer on the condition that appointments meet with the approval of the Local Government Board at that time.

### National Insurance.

So, too, when it became understood that sick people were likely to come on the rates, men were prompted to ask how to prevent sickness in their fellows. Disease causes poverty, but poverty also causes disease ; and our great National Insurance Act tries to break the evil circle. Not humanity, so much as expediency, presided at the first efforts of the local authorities to remove the causes of disease. The Insurance Acts and the Old Age Pensions Acts show that conscience, besides pocket, is also operative among us. The latter Acts try to remove the necessity for the aged poor to have recourse to poor relief, to them—however little to others—an unmerited degradation. The Insurance Acts provide a medical service, ample and everywhere available, to which the wage-earner can freely resort : so far as can be he is protected from disability due to disease. And if he does become incapacitated by sickness a money allowance will render needless a recourse to poor relief. The necessary funds are in part obtained by compulsory contributions from employed and employer (another instance of compulsory co-operation), but also in part from the Exchequer : “ ninepence for fourpence ” was the first offer to the workmen.

### A Contrast.

In the multitudinous interventions of the State into the lives of the people to-day—in compulsory education, in vaccination, in school medical inspections, in trivial

things like the providing of fire-guards where children are, and in great things like the regulating of mines and factories and workshops—we have a startling contrast to the old let-alone days. One quotation may be excused as illustrating the difference between our modern Governments, labouring under a heavy burden of responsibility for the ills of the whole of suffering humanity, and earlier Governments with their unconsciousness of any responsibility for the welfare even of one's own people. In 1853, in the high day of *laissez faire*, Lord Palmerston was, in view of the danger of cholera, asked to have a general religious fast proclaimed. He declined, but gave gratuitous advice, "The weal or woe of mankind depends," he declared, quite in the dogmatic style of the old economists, "upon the observing or the neglect of certain laws of nature: man can by his exertions overcome the harmful influences that bring sickness." "It is the duty of man to attend to those laws of nature and to exert the faculties which Providence has thus given to man for his welfare. Lord Palmerston would therefore suggest that the best course which the people of this country can pursue to deserve that the further progress of the cholera should be stayed will be to employ the interval which will elapse between the present time and the beginning of next spring in planning and executing measures by which those portions of their towns and cities which are inhabited by the poorer classes, and which, from the nature of things, most need purification and improvement, may be freed from those causes and sources of contagion which, if allowed to remain, will infallibly breed pestilence and be fruitful in death, in spite of all the prayers and fastings of a united, but inactive nation. When man has done his utmost for his own safety, then is the time to evoke the blessing of Heaven to give effect

to his exertions." Sensible advice, no doubt, but when one man's utmost exertions are made of no effect through another's indifference—when seeing to one's drains does not prevent fever, since a neighbour's drains are faulty—the local authorities would have welcomed a general measure. The measures taken by London to keep its citizens healthy may well be nullified because Croydon, or another town that daily pours workers across the bridges, remains indifferent.

### **Incurring Public Debt.**

We may postpone the payment of a bill for a time or, as modern Governments seem disposed to do, for ever. We may run into debt hoping that next month will find us freer from embarrassments : "Hope rules a land for ever green, The powers that serve that bright-haired queen Are confident and gay." Hope gives a great revenue ; and we have much to do with the funds in hand. But debt, as the Oxford undergraduates find out, gives temporary ease at the cost of greater discomfort in the future. The greater revenue finds greater expenditure awaiting it.

It is nowise different with State expense. The nation is getting richer every year, is the argument ; a penny in the pound on the income tax brings in an ever-increasing amount. We must be able to pay bills more easily in the future. Besides, are we not one with posterity ? The individual dies but the State remains—"the United States still lives" though Presidents are shot—is it not reasonable that posterity shall pay for what benefits posterity ? If the war is a just one—and has anyone among us known this country to enter upon war that is not just ?—it is in the enduring interest of the State. Should not the shoulders of future generations for whom the war is waged, bear such of its charge as

they can be made to do? The trouble is, however, that posterity cannot provide the bread and meat for our ration strength nor the shells for our guns. Unless we can bring these from abroad, giving in return a claim upon the loaves and fishes of our children's children, we shall, in spite of loans, need to provide them ourselves. We bear the privations of the war once for all, and an internal loan is merely an easier means than taxation of inducing people to give up their claims. The pleasure, or the benefit, of a revenue is enjoyed at the moment; the raising it is deferred to a date that may as little come as the Greek Kalends. Our "funded" debt is, in fact, such as the State does not undertake to repay at any fixed time.

### A Drawback of Debts.

But posterity is bound by our debts. We have here a case of taxation without representation: the people that are to come must bear taxes in regard to which they have had no voice. Will not that bring on a Boston tea-party on a larger scale and lead to a refusal to pay? When Adam Smith wrote he was alarmed by the debt of 130 millions—a third of our annual debt charge; and the prophecy was that the nation must destroy the public debt or the public debt would destroy the nation. It is at least arguable that modern Russia is a case in point. Yet the warnings of Treasury and Exchequer officials are ignored; we are lighthearted under a burden that would, some few years ago, have appeared intolerable. "Father will pay," says the undergraduate, "He will grumble a little no doubt, and for a day or two will switch off the electric light when he leaves a room, but he'll pay all right." "Posterity will pay," say we, "It will acknowledge that our ideas were sound and are well worth paying for."

It will not grudge paying more for its tea and sugar because we built concrete ships or initiated at Chepstow a national shipyard, or at Slough a national motor depot, or gave the farmers and landowners a draft upon the future." But posterity may have cares of its own ; and modern facilities for obtaining loans do not justify lavish expenditure.

After all, though, however skilfully we arrange our schemes for raising money and for spending it, the enlightened scrutiny of the payer of rates or taxes is the best security against folly or corruption. In 1879, for instance, highway accounts were first brought under audit ; and the auditors disallowed some curious items that would never have appeared if publicity had been expected—on sparrow-shooting clubs, on theatre visits, on presentation portraits, and on wedding presents. Where, as with us, publicity is the rule we need not despair ; and when, as also with us, those who represent us in Parliament and in local council are free from taint of corruption, we can look for improvement.

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